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ROYAL COMMISSION

ON

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HEARINGS

HELD AT
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ANGUS, STONEHOUSE & CO. LTD.

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11 ADELAIDE ST. W.

TORONTO

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1 ROYAL COMMISSION ON TAXATION

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3 Hearing held in the Centre Court
4 Room, Exchequer Court of Canada,
5 Supreme Court Building, Wellington
6 Street, Ottawa, on Thursday, October
7 10th, 1963.

8 COMMISSION:

9 MR. KENNETH LeM. CARTER - Chairman

10 MR. J. HARVEY PERRY

11 MR. A. EMILE BEAUVAIS

12 MR. DONALD G. GRANT

13 MRS. S. M. MILNE

14 MR. CHARLES E.S. WALLS

15
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17 LEGAL ADVISER:

18 MR. J. L. STEWART, Q.C.

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21 RESEARCH DIRECTOR:

22 PROF. D. G. HARTLE

23
24 SECRETARY:

25 MR. G. L. BENNETT
26
27
28
29
30



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Ottawa, Ontario

Thursday, October 10, 1963.

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A/SS

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---Upon commencing at 9:30 a.m.

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THE CHAIRMAN: I think we have reached 9:30.

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---EXHIBIT NO. 219:

Submission of the Canadian
Automobile Chamber of
Commerce.

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THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Mr. Totten and gentlemen. We are glad to see you indeed, and we are very grateful for your contribution in this area on sales tax. As you know, it has been kicked around for a number of years. A lot has been said about it, and I am delighted people are still saying things about it.

We have, of course, read your submission, and we will have questions to put to you, but before that if



1 there is anything you would like to say in amplification
2 or modification, we would like to hear you.

3 MR. TOTTEN: I would like to make a few remarks.

4 The Canadian Automobile Chamber of Commerce, as
5 you probably know, is an association of Canadian motor
6 vehicle manufacturers in which any Canadian manufacturer
7 of motor vehicles may apply for membership and the present
8 membership of which consists of:

9 American Motors (Canada) Limited Brampton, Ont.

10 Chrysler Canada Ltd. Windsor, Ont.

11 Ford Motor Company of Canada Limited Oakville, Ont.

12 General Motors of Canada Ltd. Oshawa, Ont.

13 International Harvester Co. of Canada Ltd.
14 and - Hamilton, Ont.

15 Studebaker of Canada Limited Hamilton, Ont.

16 Our submission deals only with commodity taxes
17 and proposes the establishment of a "National Purchase
18 Tax on New Goods for Private Consumption" with a
19 suggested short title of "National Commodity Tax", which
20 would replace the present Federal Manufacturers' Sales Tax
21 and Provincial Retail Sales Taxes.

22 This proposal may sound somewhat repetitious to
23 the members of this Commission as we note that at least
24 seven submissions have recommended that the present
25 Manufacturers' sales tax be replaced with a Retail Sales
26 Tax and that two have also recommended that it be on a
27 uniform basis for both Federal and Provincial Tax.

28 However, our proposal, we believe, would result
29 in more efficient and equitable form of tax and is based
30 on the principles or assumptions that:



1. A certain proportion of government revenue will be obtained from sales tax.
2. The purpose of a sales tax is to raise revenue, not to curtail spending, although in times of emergency it has been used, necessarily, for this purpose. For example, the special excise tax on automobiles during and following the last war, and then retained as a revenue producing tax following the war.
3. A sales tax should not inflict undue hardship on the individual or certain classes of individuals which would be the case if applied to the basic necessities of life.
4. It should not affect domestic competition with goods manufactured abroad or affect the buying pattern of consumers.
5. It should not in any way affect competition of Canadian goods in export markets.

It is maintained by some that the present sales tax does inflict undue hardship on certain classes of individuals and it might be advisable to review and revise the taxable or exempt status of some commodities in the light of their being or not being a basic necessity of life.

We have concluded that the present excise taxes do not affect the buying pattern of the consumer to some extent in that any increase in price has an effect on sales. We are particularly aware of this with regard to automobiles which are extremely price sensitive, and feel that special excise taxes should be used only where



1 they apply to non-essential goods.

2 The present manufacturers' sales tax also weighs
3 more heavily on some commodities than others due to the
4 various distribution methods; a good example being our own
5 industry where the manufacturer sells directly to
6 retailers and is, therefore, taxed on the full price
7 including distribution costs, whereas on other commodities
8 where the method of distribution varies, a notional price
9 is used, thus eliminating distribution costs to some
10 extent.

11 The present manufacturers' sales tax also has
12 a detrimental effect on domestic competition with
13 imported goods and with competition of Canadian goods in
14 export markets. In the first place, imported goods are
15 taxed only on duty paid value, whereas those manufactured
16 in Canada are taxed on manufacturers' selling price which
17 again includes distribution costs. (For example, the
18 percentage of tax to the dealer price of a Canadian
19 built automobile is 9.9%, whereas on an imported unit it
20 is only 9.1%). Secondly, the recent imposition of sales
21 tax on Machinery and Apparatus results in an immediate
22 and sizeable increase in the cost of manufacturing in
23 Canada, estimated in some quarters to be as much as
24 \$100,000,000. This has a very detrimental effect on
25 competition of Canadian goods in export markets, and with
26 imported goods in the domestic market, and we strongly
27 urge that this inequity be removed as soon as possible.

28 We are therefore recommending that a uniform
29 Federal and Provincial sales tax be imposed on the price
30 paid by the private or end consumer, to be collected by



1 the Federal government, which would act for those
2 provincial governments levying a sales tax and who would
3 agree to accept a uniform tax base, rules and regulations.
4 Those provincial governments wishing to participate could
5 set a rate of tax necessary to meet their needs, which
6 rate would be added to that set by the Federal government.
7 The tax would be collected at the point where the item
8 is sold to the private consumer, and the provincial
9 portion of the tax credited to the province in which the
10 transaction is made. Mail order goods would be
11 considered as taxable in the province in which delivery
12 is made.

13 We also recommend unconditional exemption for
14 those items which are considered the basic necessities of
15 life with conditional exemptions for basic, primary and
16 secondary industries in order to reduce pyramiding of tax
17 to the greatest extent practicable.

18 The proposed National Commodity Tax would re-
19 solve the problems created by manufacturers selling at
20 different levels in the marketing process, eliminating
21 the need for notional prices and would also eliminate the
22 present inequality in the tax payable by Canadian
23 manufacturers as compared to importers of similar goods
24 of like value.

25 The recommended conditional exemption for
26 basic, primary and secondary industries which would
27 involve the removal of the present tax on Machinery and
28 Apparatus would also assist Canadian goods to compete
29 with products manufactured abroad. Thank you.

30 THE CHAIRMAN: Thank you. In your statement



1 there are certainly a few points that I would like to
2 come to immediately, because I think they are very
3 fundamental. You have mentioned the fact that people
4 claim that there are certain hardships under the present
5 tax. Were you thinking of the excises or general sales
6 tax or both?

7 MR. TOTTEN: Well, both really. We are not
8 saying whether it should be or should not be, but I
9 read in one submission where margarine is still taxed,
10 whereas certain luxury foods are not. We are not main-
11 taining that one or the other should be exempt, but we
12 feel probably the items that are taxed should be reviewed
13 in the light of whether they are a basic necessity of
14 life.

15 THE CHAIRMAN: You refer to the taxing of non-
16 essentials. You mention non-essentials. I was wondering
17 what you had in mind. We have not had anybody before
18 us who was prepared to admit what he produces or sells
19 is a non-essential. We have been looking for that.

20 MR. TOTTEN: We had in mind excise tax there,
21 of course. We were faced with it for several years,
22 and we felt automobiles were essential and finally the
23 excise tax was removed on automobiles. I do not think
24 we are prepared to say just what is essential or non-
25 essential.

26 THE CHAIRMAN: It is very difficult, is it
27 not, even in your own business?

28 MR. TOTTEN: Yes.

29 THE CHAIRMAN: One car may be essential and
30 two cars may not.



1 MR. TOTTEN: That is true.

2 THE CHAIRMAN: I wonder if the test is not
3 just a qualitative test; if it isn't a quantitative test
4 also. To some extent foods are essential, and I presume
5 to some extent they are not essential. I certainly think
6 sometimes what I put inside myself is not an essential.
7 I believe we all have that trouble.

8 This matter of the tax favouring imports is
9 something we have had a very difficult time documenting.
10 You refer to an example of where the tax on Canadian
11 automobiles is 9.9%, and on imported cars 9.1%. Would
12 that be because of valuation? Is that just the mathema-
13 tics of it?

14 MR. TOTTEN: That is the mathematics of it.
15 We worked out a couple of examples. This is a percentage
16 of the price to the dealer.

17 MR. URIE: Tax included.

18 THE CHAIRMAN: Is that because the markup -- it
19 is different on a Canadian car than on an imported car?

20 MR. TOTTEN: No. You pay tax on your duty-
21 paid value on an imported car, and that is not, of
22 course, the price to the dealer; whereas on a Canadian-
23 built car you pay tax on your price right to the dealer,
24 which in our case includes distribution cost of course.

25 THE CHAIRMAN: It is taxed at a different
26 level in the distribution process?

27 MR. TOTTEN: Right.

28 THE CHAIRMAN: The intention, of course, is to
29 tax at the same point, and where it is a different point
30 you adjust by discounts?



1 MR. TOTTEN: Yes.

2 THE CHAIRMAN: Then does this need some kind of
3 adjustment to bring it into balance? I see in one case
4 it is the point of import and in the other case it is the
5 point at which it is bought by the dealer.

6 MR. TOTTEN: We have recommended in the past
7 that it be discounted ---

8 MR. URIE: It was turned down because there was
9 no inequity within the industry. We are all on the same
10 basis. They will grant discounts when they feel one
11 firm has an advantage over the other.

12 THE CHAIRMAN: Was this at a time before the
13 importation of automobiles was as great as it is now?

14 MR. URIE: No, quite recently.

15 COMMISSIONER WALLS: Going back to this matter
16 that Mr. Carter put before you in regard to the so-
17 called inequity in regard to imported products in
18 comparison with like domestic products, is the main
19 point of difference the fact that the freight from the
20 country of origin to the border of where the value for
21 duty is assessed is not included?

22 MR. TOTTEN: No, I don't think so. It is mainly
23 distribution costs that are not taxed. The manufacturer
24 in Canada, the automobile industry, they are selling
25 direct to a retailer, and therefore their selling price
26 to the dealer necessarily includes all distribution costs,
27 whereas with the importer that is not the case. He just
28 pays on the duty-paid value; taxed on duty-paid value.

29 THE CHAIRMAN: Could you send us in a mathema-
30 tical example of that? You do not need to base it on



1 exact figures; just so that we can see how it operates.

2 MR. TOTTEN: Yes, we can do that.

3 COMMISSIONER WALLS: Would you not say insofar
4 as advertising is concerned, for instance Vauxhall carries
5 a certain amount of advertising in this country that it is
6 included in their selling price of the car ~~in the country~~
7 and is one of the distribution costs.

8 MR. URIE: We do not know what Vauxhall does,
9 but basically it does not happen. ~~That~~ The Canadian distri-
10 butor does the advertising, and therefore it is not
11 taxed. If Vauxhall happens to do their advertising in
12 England, what they do is so --

13 COMMISSIONER WALLS: But the advertising as far
14 as you know is done by ---

15 MR. URIE: I am speaking without knowledge, but
16 certainly in a general way that is true. The freight you
17 mentioned is certainly a factor, but it is one of several
18 factors.

19 COMMISSIONER WALLS: You emphasized the disadvan-
20 tage in the marketing process of pyramiding. "Each step
21 in the marketing process adds a percentage of profit on
22 cost which includes tax content." We have received many
23 conflicting reports as to whether pyramiding exists or does
24 not. Insofar as the automobile business is concerned, is
25 the price pyramided? In other words, do you operate on a
26 fixed percentage of profit in each stage that the automobile
27 passes through or on a flat margin? If you operate on a
28 flat margin, naturally there is no pyramiding.

29 MR. TOTTEN: Well, of course in setting your
30 price you first determine your cost, and determine what



1 percentage of profit you should arrive at, and if that
2 cost includes a certain amount of tax, there is certainly
3 pyramiding.

4 COMMISSIONER WALLS: That is what I am getting
5 at. In your industry you operate on a separate percen-
6 tage added the whole way through?

7 MR. TOTTEN: I would say so, yes.

8 COMMISSIONER WALLS: So that indeed there would
9 be pyramiding insofar as your industry is concerned?

10 MR. TOTTEN: Yes.

11 THE CHAIRMAN: I think after the tax is
12 collected it only goes through one further stage; namely,
13 that of the retailer.

14 MR. TOTTEN: Yes.

15 THE CHAIRMAN: Really it is a wholesale tax in
16 your case.

17 MR. TOTTEN: Yes. There is only one step.

18 THE CHAIRMAN: So that there is less chance of
19 pyramiding of course with just a dealer. Would the
20 dealer make more or less profit if there were no tax?

21 MR. TOTTEN: You are talking about tax on
22 machinery and apparatus?

23 THE CHAIRMAN: No, I am not. I am assuming
24 there was no tax charged on automobiles. Would it make
25 any difference to the dealer's profit?

26 MR. URIE: In theory it would not. What would
27 actually happen in practice I am not quite sure, but on
28 our price lists the tax is set in a separate amount.

29 MR. TOTTEN: I wouldn't say it would make any
30 difference in the dealer's profit. I think what you are



1 talking about, more in the case of pyramiding, there is
2 the tax that gets included in your cost, for instance,
3 machinery and apparatus and so on.

4 COMMISSIONER WALLS: You just give a brief
5 sentence on the alternative of wholesale tax to manufac-
6 turers' tax. I wonder if someone missed it, because it
7 seems to me it also eliminates confliction between various
8 methods of distribution by charging on the price paid to
9 the retailer which would appear to be just as easy as on
10 the price charged by the retailer. In other words, you
11 eliminate inducement I would think equally well,
12 and you eliminate rebates that are being charged to the
13 retailer to the same extent perhaps as to what the
14 retail level charges at, and I wonder why you dismiss
15 that tax so readily.

16 MR. TOTTEN: Well, we felt there was a certain
17 amount of pyramiding going on at the wholesale level
18 which you eliminate entirely if you have it placed on
19 the retail level.

20 THE CHAIRMAN: The only pyramiding that could
21 occur would be similar to the example in your own
22 industry that we have just talked about. There would be
23 pyramiding at the retail level, because of the tax on the
24 purchase by the retailer, and in your industry you would
25 not, but perhaps other retailers would be able to make
26 more profit because of the tax included.

27 MR. TOTTEN: I think there would be more
28 likelihood in other products. I do not think tax is
29 identified quite so well on other products, for instance
30 on appliances and so on, as it is on automobiles.



1 We do show the sales tax separately on our price lists,
2 on our dealer price lists.

3 THE CHAIRMAN: I find it pretty hard to accept
4 the fact that profits would go down if there were no taxes
5 in any industry I can think of. I would have thought
6 the force of competition would have taken care of it
7 pretty well.

8 MR. URIE: There are some businesses that add
9 an overall 10% to their cost. They have a formula. In
10 those cases presumably the profits would go down.

11 THE CHAIRMAN: I have always assumed that they
12 applied markdowns before they got rid of their goods.
13 It is very hard to tell.

14 COMMISSIONER PERRY: I think the economists
15 argue that it is a kind of profit that industry must have
16 to survive. If the profit were not being obtained by a
17 markup of the tax, they have to be obtained some other
18 way and the profit margin had not changed, even though
19 you remove the tax. It is awfully hard to demonstrate
20 this, because taxes are so seldom removed.

21 THE CHAIRMAN: You gentlemen can only speak for
22 your own industry, of course.

23 MR. URIE: Yes.

24 COMMISSIONER WALLS: I think on page 8 you are
25 talking of your own industry when you are emphasizing the
26 fact that goods used by industry don't in fact reach
27 the end consumer. "Examples of such goods used in
28 industry but subject to sales tax would be automobiles
29 and office equipment." By that you feel the automobile
30 should be exempt from sales tax?



1 MR. TOTTEN: No, we are saying the opposite.
2 We would like to see them exempt. We recognize that some
3 articles are used in both industry and for private consump-
4 tion. There are some things you can't exempt without
5 opening it up to abuse.

6 THE CHAIRMAN: Rather than jump about too much,
7 it might be a good idea to discuss the alternative of a
8 tax at the wholesale level. You must have considered it
9 for a good reason. One thing in favour of the wholesale
10 tax is it is a great deal cheaper to administer. I don't
11 know what the cost of the retail tax is. I know it must
12 be pretty expensive, because the provinces make an
13 allowance to the licensed collectors. I think in some
14 provinces it is as much as 2% and if you add the
15 Departmental costs on top of it it is 4% or 5%. It is a
16 pretty high cost of tax. If it were done in a way not
17 too far removed from the manufacturer it is very much
18 less, much less than 1%.

19 One of the tests of a good tax is to be able
20 to use most of the proceeds and not have to pay out to get
21 it and not to have to lose too much in the collecting of
22 it. Certainly the efficiency of collecting is not as
23 good at the retail level. No one knows just how good it
24 is. I think you considered those matters.

25 MR. TOTTEN: Yes, I think we considered if the
26 retail tax were not acceptable the next alternative would
27 be the wholesale level.

28 THE CHAIRMAN: That is what I am reaching for
29 really. Certainly we can all accept the incidence is
30 better at the retail level than the wholesale level.



1 We are not concerned about retail markups. It is better
2 at the wholesale level probably than the manufacturers'
3 level.

4 MR. TOTTEN: We were wondering if the adminis-
5 trative cost would be any greater than they are at
6 present. Each province must be faced with considerable
7 administrative costs. Now, of course, in the manufacturers
8 taxation there is a certain amount of administrative
9 cost too. If they were all combined in one tax we were
10 wondering if the cost of administration would be higher
11 than now.

12 THE CHAIRMAN: I see what you mean, if you take
13 the aggregate of all the provinces. I have no idea.

14 COMMISSIONER WALLS: Don 't you foresee certain
15 difficulties? The provinces have been able to look on
16 the retail sales tax as their own particular field. In
17 order to put in a joint tax it is suggested in your
18 brief that you would have to come to some common base. Some
19 of these provinces have put a sales tax on for specific
20 purposes, it is specifically named for hospitals or for
21 education and therefore it would perhaps mean an entire
22 reassessment by the provinces as to the use of this tax,
23 whether it would be credited now to consolidated revenue or
24 continue to be named. For instance, if the cost should go
25 up in some of those factors they have named the tax for,
26 they might wish to have the option to increase the tax.

27 MR. URIE: We don't say the rate would be the
28 same all over Canada.

29 COMMISSIONER WALLS: Even though it would amount
30 in some provinces right away to 12% or 13%.



1 MR. URIE: It is now in effect, just one piece
2 is hidden.

3 COMMISSIONER WALLS: Oh, yes. You bring that
4 point up. How acceptable would it be to consumers to
5 have to pay 13%?

6 MR. URIE: Well, if your suit cost you \$125.00,
7 would you care if it was \$125.00 or \$112.00 plus \$13.00?

8 COMMISSIONER WALLS: I have heard the opinion
9 expressed in the province I come from that every time you
10 pay the 5% they say "Another five cents for Mr. Bennett."
11 Now, I would ask you for your interpretation on this:
12 I would think that the fear of the provinces would be
13 that having established that they are in this field and
14 the consumer has come to accept it, are they not going to
15 be accused of the 13% or 12% and will that not turn the
16 provinces against any collaboration in that tax field?

17 MR. URIE: I doubt if the province would get
18 blamed. I suspect the Dominion would get blamed in that
19 case.

20 MR. TOTTEN: It would certainly bring it out in
21 the open.

22 COMMISSIONER WALLS: It lets them know what
23 they are doing on that particular sale. It doesn't give
24 them any better idea what they are paying towards the
25 total tax, does it?

26 MR. URIE: No.

27 COMMISSIONER WALLS: Shall I go on to the next
28 part?

29 THE CHAIRMAN: I would sooner you stay with the
30 wholesale tax.



1 MR. URIE: On the wholesale tax the difference
2 is a little one. The place it would show up quite heavily
3 would be on the big retailer like, say, Eatons, who
4 import in large quantities.

5 THE CHAIRMAN: Why do you say that?

6 MR. URIE: If they import pillowcases from
7 Japan, they will pay on duty-paid value which will not
8 include freight and advertising.

9 THE CHAIRMAN: They will pay tax on the price
10 that the retailer pays for his goods. The retailer will
11 pay the tax. They pay whether it is imported or locally
12 manufactured goods. Assuming the markup is the same the
13 tax would be approximately the same to the consumer, which
14 I suppose is what the fair test is.

15 MR. URIE: The tax would not be the same,
16 because the markup would be different.

17 MR. TOTTEN: I am assuming that Eatons do their
18 own importing from abroad. In that case it would be the
19 duty-paid value, which would not include transportation
20 costs which could be heavy on an ocean haul. If they
21 buy from Wabasso it is on the price they pay Wabasso,
22 which would include national advertising. I do think
23 you would have an inequity.

24 THE CHAIRMAN: Duty-paid value would not be the
25 same as their cost.

26 MR. TOTTEN: That is right.

27 THE CHAIRMAN: Would it be more or less in
28 those cases?

29 MR. TOTTEN: I think it would be almost always
30 less, unless they get tougher with Japan. It might be



1 hard to calculate.

2 THE CHAIRMAN: Still it could be done.

3 MR. TOTTEN: They would have to mark up the
4 duty-paid value by some percentage.

5 COMMISSIONER WALLS: Would you mark it up by the
6 freight?

7 MR. TOTTEN: Years ago they did have a different
8 rate for imports than domestic. I suppose they probably
9 had that sort of thing in mind. Of course, I guess you
10 would get screams from abroad.

11 THE CHAIRMAN: I have never seen a country which
12 which actually does that. I think it would be pretty
13 hard to introduce. Would you feel that if there was a
14 consumers' tax, as you suggest here, that it should always
15 be shown separately and not included in the cost of the
16 goods? Some laws require it to be shown separately and
17 some require it not to be shown separately as a matter of
18 fact.

19 MR. URIE: We didn't really discuss that.

20 MR. TOTTEN: We anticipated it would be shown
21 separately.

22 THE CHAIRMAN: That is what you are used to.

23 MR. TOTTEN: Yes.

24 COMMISSIONER WALLS: First of all, I understand,
25 you believe that it would be ideal for services to be
26 taxed sales tax, although you think it is administrati-
27 vely impossible. Did you take into consideration the
28 fact that in the United States they have been selective
29 in placing a sales tax on certain services.

30 MR. TOTTEN: I was not aware of that, but we



1 had quite a discussion on taxing services and we felt it
2 would be favourable if they were taxed. I know we spent
3 some time discussing it and it looked very difficult to
4 apply it to services.

5 THE CHAIRMAN: What services were you thinking
6 of, all kinds?

7 MR. TOTTEN: Oh, yes, radio repair men and so
8 on.

9 MR. URIE: Chartered accountants.

10 THE CHAIRMAN: Bank interest!

11 COMMISSIONER PERRY: Did you consider that quite
12 a few services are really industrial costs, such as trans-
13 portation, or were you thinking of personal services?

14 MR. TOTTEN: Thinking more of personal services.

15 COMMISSIONER PERRY: In the broad concept it
16 goes much beyond that to almost any activity which does
17 not produce a tangible product.

18 COMMISSIONER WALLS: Your proposal was services
19 should be treated as the end consumers and they should be
20 taxed on the goods they consume. That is what you recommend?

21 MR. TOTTEN: Yes.

22 COMMISSIONER WALLS: I presume that would take
23 in things like natural gas and electricity?

24 MR. TOTTEN: Yes.

25 COMMISSIONER WALLS: Why should a natural gas
26 pipeline be taxed any more than the manufacturer in the
27 manufacture of its product?

28 MR. URIE: We agree it should not if the end
29 product is taxed.

30 COMMISSIONER WALLS: Don't you say all service



1 industries should be treated as end consumers and taxed on
2 goods they consume? They consume the pipe, don't they?
3 Then why would you tax that and
4 not tax machinery of production?

5 MR. TOTTEN: The end product would not be taxed.

6 MR. URIE: We stated that after we had given up
7 on the idea of taxing services.

8 MR. TOTTEN: In the case of the manufacturer,
9 the end product is taxed.

10 COMMISSIONER WALLS: I will read the sentence:
11 "We propose, therefore, that all service industries should
12 be treated as end consumers and taxed on goods they
13 consume." Now, do you mean that it shall pay tax both
14 places? Do you mean that he will be both charged sales
15 tax on what he consumes and will charge sales tax also on
3 16 the product for which he produces.

17 MR. URIE: If you read 16 as a whole, you won't
18 get that impression. You are reading the last piece of
19 it. We should have said it better.

20 COMMISSIONER WALLS: I just wanted to get it
21 clarified.

22 MR. TOTTEN: We say "We must acknowledge the
23 administrative complexities of taxing services." We are
24 withdrawing the idea of taxing services and we go on and
25 say "We propose, therefore, that all service industries
26 should be treated as end consumers and taxed on goods they
27 consume."

28 THE CHAIRMAN: That is the situation now, is
29 it not?

30 MR. TOTTEN: Right. If you take a painter, he



1 might act as a retailer and also provide a service and in
2 that case he would be required to pay the tax on the paint
3 he sells or where a service organization also acts as a
4 retailer it would, of course, be responsible for tax on
5 sales to the end consumer.

6 COMMISSIONER WALLS: Would the painter pay for
7 sales tax on the paint and again charge sales tax on the
8 work that he does?

9 MR. TOTTEN: No. We acknowledge the administra-
10 tive complexities of taxing services. We are not
11 recommending that we tax services, but that he pays on
12 everything that he consumes. I know painters that
13 contract for painting and then also, of course, have a
14 retail store where they sell paint retail. In that case,
15 of course, they would be required to pay tax on retail
16 sales.

17 COMMISSIONER PERRY: You are saying the tax
18 should be restricted to tangible products and in the
19 case of people performing services that they pay tax on
20 the tangible products they use in performing the services.

21 MR. TOTTEN: That is right.

22 THE CHAIRMAN: Which is the situation that now
23 exists.

24 COMMISSIONER PERRY: Maintain the status quo.

25 MR. URIE: It would have been clearer if we
26 just said that.

27 COMMISSIONER GRANT: I have a question or two
28 in connection with the practical application of the
29 retail tax which is that one tax would be imposed at the
30 retail level to be shared in by the Federal and Provincial



1 Governments and in the amounts which each has stipulated.
2 Has your thinking gone to the point where you would
3 express an opinion as to whether or not that would be in
4 the form of an exposed or hidden tax?

5 MR. TOTTEN: Well, as we said before, we
6 anticipated it would be an exposed tax.

7 COMMISSIONER GRANT: Have you thought of the
8 effect of it being a hidden tax, that it would be
9 collected in the same manner as the manufacturing tax is
10 now, as the exposition tax is consumed?

C/SS 11 MR. TOTTEN: No, I do not think we have
12 considered that. I thought all the way through our
13 discussion we anticipated it would be an exposed tax.

14 COMMISSIONER GRANT: If it were a hidden tax,
15 do you think it would be included in the pricing of the
16 product? Would it be more inclined to be included in the
17 price of the product than if it were a direct tax, that
18 exposed tax?

19 MR. TOTTEN: More likely to be included?

20 COMMISSIONER GRANT: The tax itself would more
21 likely be included in the cost of the product when a
22 retailer was pricing his product for the retail market?
23 I can see where that danger would not exist if it were
24 an exposed tax, but I am wondering whether there would be
25 a danger of profit being taken on the tax if it were
26 a hidden tax.

27 MR. TOTTEN: I see what you mean.

28 COMMISSIONER GRANT: Have you any views on
29 that?

30 MR. TOTTEN: I would be inclined to agree with



1 you, there would be more likelihood of taking profit on
2 the tax if it were included in the price. There is no
3 possibility of it if it is shown separately, if it is
4 exposed.

5 MR. URIE: I don't honestly think it would make
6 any real difference. If a man knew he was going to
7 collect 10% of sales tax and it happens after the fact,
8 he would have no excuse of preparing anything for it, so
9 I think he would simply advance his cost by 11% to
10 provide the figure which he could take the 10% out of.
11 I would doubt that it would make any difference at all.
12 He may decide he wants 10% or 15% profit, and I suppose
13 if he could get away with a little more, he will, but I
14 doubt if the tax would be the basis for that. The
15 fellow that pays the tax, he has a perfectly legitimate
16 reason for wanting to hold that tax if it is costing him
17 money.

18 THE CHAIRMAN: You recommend such a tax would
19 not extend to machinery and equipment in view of the
20 effect that it would have on the price of goods for
21 export. I think that is the point you made. We find,
22 of course, that the pattern is not at all regular. Some
23 countries exempt machinery and equipment, and some
24 deliberately tax machinery and equipment. Everybody says
25 that the sales tax base must be wider. I am curious as
26 to where one goes to widen it. Machinery and equipment
27 would seem to be a likely place. Just how much damage
28 would it do to the automobile industry if machinery and
29 equipment were in fact taxed?

30 MR. TOTTEN: Of course it is taxed now.



1 Four percent right now.

2 THE CHAIRMAN: What do you have to say about
3 that? Did you complain about it?

4 MR. TOTTEN: Yes, we did, bitterly, particularly
5 on tools. Tooling to the automobile industry is quite a
6 sizeable figure every year, and it is going to increase
7 our costs quite considerably.

8 THE CHAIRMAN: Did you give any indication as
9 to the extent to which it was going to increase the cost
10 of an automobile or the effect it was going to have on
11 the prices of Canadian cars? In your complaints did
12 you produce any such information as that?

13 MR. TOTTEN: No, I do not believe we did.

14 COMMISSIONER PERRY: It is a rather unhappy
15 period to be saying that it was hurting you very much.

16 MR. DYKES: I gather this refers to the level
17 of sales.

18 COMMISSIONER PERRY: Yes.

19 MR. DYKES: It is an unfortunate time to have
20 to put the finger on this issue, but we are very much
21 concerned.

22 MR. URIE: Particularly on the other hand
23 exports are being dropped just because of this tax.

24 THE CHAIRMAN: Did anybody work out what the
25 equation is of this kind of cost to corporation income
26 tax, the cost of that which also has an effect on the
27 price of goods for export? I do not know what the weight
28 of this thing is on the value of goods for export, and
29 I do not suppose anybody does who is sitting up here.

30 MR. URIE: No, we did not. One thing about the



1 corporation income tax, you don't pay it unless you make
2 a profit.

3 THE CHAIRMAN: We have lots of people tell us
4 the export position in Canada would be improved if
5 corporation taxes were reduced. It may be wrong, but
6 certainly that has been put forward before us.

7 MR. URIE: I would think it is true all right,
8 assuming, of course, that it didn't get hit in some other
9 direction.

10 THE CHAIRMAN: Lots of other costs affect
11 exports too, and I think we must weigh one against the
12 other. Certainly you cannot be free of all costs that
13 affect exports. Which ones are the damaging ones?

14 COMMISSIONER GRANT: As a matter of interest
15 and this probably has not very much bearing on sales tax,
16 but is the re-tooling in the automobile industry becoming
17 more extended as time goes on or is it as frequent as it
18 used to be?

19 MR. TOTTEN: I cannot speak for all the
20 industry, but I think it is a little less frequently than
21 it used to be.

22 MR. URIE: I do not think there is any substan-
23 tial difference. Our tooling costs are very high right
24 now. There are some parts that last for three years and
25 others that last only a year. A one, two, three-year
26 period depending on the changes that are happening.

27 COMMISSIONER GRANT: Is it because of obsoles-
28 cence, or is it because of wear and tear?

29 MR. URIE: Change of design, and in some cases
30 we make a radical improvement by changing your design.



1 COMMISSIONER PERRY: I was wondering if you
2 could sum up the tax which you describe and advocate as
3 being approximately the sort of retail sales tax that one
4 finds in Ontario?

5 MR. TOTTEN: Something similar to that.

6 COMMISSIONER PERRY: Where you have an exemption
7 for producer goods and equipment, building materials, tax
8 being applied at the retail level generally on tangible
9 products.

10 MR. TOTTEN: Right.

11 COMMISSIONER PERRY: I have not noticed any
12 marked variation between what you are proposing and the
13 tax such as one finds in Ontario. Then going on from that
14 to the proclamation that this become a national tax, you
15 are probably aware that three or four provinces have taxes
16 which are different in some respects from Ontario. In
17 other words, they do not exempt ---

18 MR. TOTTEN: We are perfectly aware of that.
19 That is what we would like to see. We are faced with it
20 in the automobile industry. We are faced with the tax
21 problem in all the provinces across Canada, and that is
22 another thing we are recommending, that we would hope it
23 might develop into a tax on a uniform basis across the
24 country.

25 COMMISSIONER PERRY: It would almost have to,
26 wouldn't it, for national administration?

27 MR. TOTTEN: Yes.

28 COMMISSIONER PERRY: It would have to be a
29 uniform tax?

30 MR. TOTTEN: Yes.



1 COMMISSIONER PERRY: We have had this put to
2 us and we have thought about it a bit. I noticed in your
3 opening statement you mentioned a more specific basis of
4 allocating back to revenues. As I recall, that is
5 presented in the brief, or is it in the brief?

6 MR. TOTTEN: I think it is in the brief. Yes,
7 Paragraph 21 on page 10, "We recommend that the tax be
8 collected by the Federal Government which would act for
9 those Provincial Governments which levy a sales tax and
10 are prepared to accept a uniform tax base, rules and
11 regulations."

12 COMMISSIONER PERRY: I was getting to the
13 more specific question of how this revenue went back to
14 the provinces once it was in the hands of the Federal
15 Government. I notice in your statement you did mention
16 something about allocation on the basis of transactions,
17 and then you mentioned mail order business too.

18 MR. TOTTEN: I thought we had that in the
19 brief. We do say some basic formula would be used as
20 has been adopted in the personal income tax branch.

21 COMMISSIONER PERRY: There is a lot involved
22 in this. I wonder if you would mind rereading this part
23 of your opening remarks. I think you have given more
24 details there than is in the brief, although I may be
25 wrong. Wait a minute. What about Paragraph 28?

26 MR. TOTTEN: Yes, that is it, sir. Just
27 exactly the same. "The tax would be collected at the
28 point where the item is sold to a private consumer, and
29 the tax credited to the province in which the transaction
30 is made. Mail order goods would be considered as taxable



1 in the province in which delivery is made."

2 COMMISSIONER PERRY: In that case the trans-
3 action would be final sale to the consumer? Selling to
4 the consumer would be the transaction?

5 MR. TOTTEN: Yes.

6 COMMISSIONER PERRY: In other words, for
7 distribution purposes, at least for reallocating revenue,
8 this preserves the present basis of revenue which would
9 be quite important. We did have some discussion earlier
10 on the sort of impact that there would be from a retail
11 rate of 10% to 15% depending on what the combined rate
12 would be. Would this bother you at all in your own
13 business?

14 MR. TOTTEN: Well ---

15 COMMISSIONER PERRY: Would it be evident
16 that tax of 10% or 15% was charged at the time of sale?

17 MR. TOTTEN: We would hope that the rate would
18 be lower. I do not think we anticipate 10% or 15% on
19 the retail base.

20 COMMISSIONER PERRY: I think you just converted
21 the Federal rate, but you have not included Provincial.

22 MR. TOTTEN: I think we would rather have it
23 out in the open. I do not think it would make any
24 difference in our business. We feel if we could see how
25 much tax there was in the price --- we would not
26 anticipate that it would raise the price, the end price
27 any. It shouldn't.

28 COMMISSIONER PERRY: You are operating a fairly
29 respectable business. There might be other businesses
30 where there would be a considerable temptation to evade



1 this tax on the part of the retailer. It would be almost
2 entirely within his discretion. There is nothing unique
3 about this line of thought; it has the danger of perhaps
4 overloading one point in the tax system. Here you are
5 collecting all your commodity taxes almost at one level at
6 a very high rate, and there are some consequences here
7 that might be disturbing.

8 COMMISSIONER GRANT: I think the provinces are
9 satisfied that they are getting a very high, exceptionally
10 high percentage of the tax. At least I have heard that
11 expressed by one or two of the provinces.

12 COMMISSIONER PERRY: I think that is probably
13 true, but we are talking about rates of 3% or 4% or 5%.
14 The Federal Government has had rates of 25% and have had
15 very unhappy experiences with collection and compliance.
16 I think it is axiomatic that the higher the rate the more
17 problem there is likely to be.

18 MR. TOTTEN: That is true.

19 COMMISSIONER PERRY: But it does not disturb
20 you too much?

21 MR. TOTTEN: No, I don't think so.

22 THE CHAIRMAN: France has a very high rate
23 indeed, but they manage to spread it out over all the
24 levels and so can collect 25%, but 25% at no one level.
25 I am concerned as to whether you have proposed sufficient
26 inducement in here for the provinces to be ready to cause
27 their Acts to conform, and turn over collection procedures
28 to the Federal Government. I suppose in turning over
29 collection procedures it would be a saving.

30 MR. TOTTEN: In the administration, yes.



1 THE CHAIRMAN: Are there any other benefits to
2 the provinces?

3 MR. URIE: It should take care of this criss-
4 cross between Ottawa and Hull.

5 COMMISSIONER WALLS: Would you also foresee the
6 retailer being paid the same percentage for collecting
7 total tax as he is now paid for collecting the Provincial
8 tax?

9 MR. TOTTEN: It should not be as high a percen-
10 tage. There is no more work to collect 10% than 3%.

11 MR. DYKES: I would suggest that the collection
12 and auditing is not necessarily Federal. It could be
13 coordinated provincially.

14 THE CHAIRMAN: If you had provinces collecting
15 the tax then we have to have the same degree of unifor-
16 mity of course. They have all got to have the same law
17 and the Federal Government has to have the same law.

18 MR. DYKES: Yes.

19 COMMISSIONER PERRY: There is the difficulty
20 that there are two provinces not yet imposing tax, and
21 there would be a vacuum, unless the Federal Government --

22 MR. DYKES: I do not suggest that that will
23 last long.

24 COMMISSIONER PERRY: I am only thinking of
25 October 14 or 15 or whatever it is.

26 MR. URIE: They do not represent a very large
27 proportion of the population of Canada.

28 COMMISSIONER PERRY: That is true, but if the
29 Federal Government were imposing a national tax, I do not
30 think you could leave out two provinces.



1
2
3 COMMISSIONER GRANT: The ideal situation as you
4 see it would be a uniform Act in which the Federal Govern-
5 ment and the Provincial Governments would be operating
6 under Acts which would be identical in wording and the
7 collection would be in the hands of the Federal authori-
8 ties. Would you say that the retail sales tax would not
9 work if you failed to get that unanimity and if you had
10 a situation, for instance, where four provinces might
11 repeal their present Acts and adopt a uniform Act, and
12 that that Act would be uniform with the Federal, but the
13 others might not. The others would hold to their present
14 one; even to the extent that they would say "We are not
15 going to belong to this proposal at all. We will
16 continue to collect our own tax." Would you give me any
17 opinion as to whether or not you think that would spell
18 the downfall of such a shift?

19 MR. TOTTEN: Well, of course to that extent,
20 to the extent that they did not join in, you would lose
21 the advantage of reduction in administrative costs. That
22 is one of the big advantages we see in it. Possibly, as
23 you say, if you only got four provinces in it, it might
24 not be desirable.

25 COMMISSIONER GRANT: It still could work if
26 you had a disposition to work on.

27 MR. TOTTEN: Yes, it could.

28 THE CHAIRMAN: Thank you very much indeed. We
29 have no more questions. I am delighted to have your
30 little book concerning the automotive industry which we



1 will look during a later moment.

2 COMMISSIONER PERRY: Incidentally, will you
3 please leave that pile?

4 THE CHAIRMAN: You have been very helpful to us
5 and we greatly appreciate your assistance. Many thanks.

6 THE SECRETARY: The second brief this morning
7 is being presented by the Canadian Medical Association.
8 We have with us Dr. N. J. Blair of Vancouver, who is
9 Chairman of the Committee on Income Tax of the Association,
10 Dr. M. O. Klotz of Ottawa, a member of the Committee, and
11 Mr. B. E. Freamo of Toronto, Secretary of Economics of
12 the Committee.

13 I would like to enter this brief into the
14 record as Exhibit 220.

15
16 ---EXHIBIT NO. 220: Submission of the Canadian
17 Medical Association.

18
19 SUBMISSION OF
20 CANADIAN MEDICAL ASSOCIATION

21
22 APPEARANCES:

23 DR. N.J. BLAIR

24 DR. M.O. KLOTZ

25 MR. B.E. FREAMO

26
27 THE CHAIRMAN: Good morning, Dr. Blair and
28 gentlemen. We have received and read your submission with
29 interest, and we have a few questions to put to you.
30 Before we start the questions, is there anything you would



1 like to say to your submission?

2 DR. BLAIR: There is very little we would like
3 to say in addition to what we have already said in our
4 brief. We would like to thank you for affording us the
5 opportunity to discuss this with you today. One thing I
6 would like to mention and that is we have an addendum
7 which we did not receive until this morning. I think you
8 now have a copy of it. With your permission we would
9 like to mention this to you and discuss it with you this
10 morning.

11 With your permission we would like to go over
12 this point by point and mention our recommendations and
13 then you ask us questions and we will answer if we can.

14 THE CHAIRMAN: The first subject is education.
15 Do you wish to speak to that?

16 DR. BLAIR : I mentioned the recommendations.
17 If you would rather we didn't do that ---

18 THE CHAIRMAN: No, go ahead by all means.

19 DR. BLAIR: "We would, therefore, recommend for
20 students in full-time attendance at a university as an
21 undergraduate or graduate, that:

- 22 1. All costs of tuition, books, equipment,
23 room and board and interest on monies
24 borrowed to finance his education, when
25 supported by appropriate vouchers and
26 receipts, be classified as allowable expenses
27 deductible by him from income
- 28 2. The student have the option of deducting
29 these expenses from income in the year in
30 which the expense is incurred or of deferring



1 all or part of the deduction until such
2 time as he obtains his university qualifi-
3 cations, or his licence or qualifying
4 degree if he is proceeding to a professional
5 qualification, and engages in substantially
6 gainful employment. It is suggested in
7 any case that the write-off of deferred
8 deductions should commence not later than
9 five years from the date of professional
10 qualification and be completed thereafter
11 in a period not to exceed a further five
12 years."

13 Then there is the other recommendation at the
14 end where we talk about parents that have paid for their
15 children's education and we recommend that parents who
16 pay the cost of higher education for dependents should be
17 permitted to deduct from income tax all costs of tuition,
18 books, and equipment, etcetera.

19 THE CHAIRMAN: I suppose this thought is outside
20 of what we have before us. I would be interested in
21 knowing what other steps are being taken to improve the
22 lot of our students. It seems to me that we are exploit-
23 ing the youngsters going through for medical training.
24 From my own knowledge I think it is very hard for the
25 youngsters to support wives and children until they are
26 32 or 33, except by borrowing a lot of money which strikes
27 me as perfectly ridiculous and entirely out of step with
28 every other profession or occupation. While this might
29 afford some benefits they are very minor benefits to
30 properly pay for the services rendered. These fellows



1 going on to specialization, which I gather is becoming
2 the rule rather than the exception, are working a long
3 time as qualified doctors without really getting proper
4 assistance. Am I correct in that?

5 DR. BLAIR: That is true. In view of the
6 situation that exists today ---

7 THE CHAIRMAN: I am asking you what else are
8 you saying?

9 MR. FREAMO: I gather that the question is
10 related to internes in residence and the amount of
11 remuneration they are receiving in the hospital. We
12 attempt to support their organizations to get more
13 income for them. We would propose to you it is very
14 difficult to do this because the pay is coming entirely
15 from governmental sources. They look upon the amount of
16 pay before the Hospital Insurance Act and they feel it is
17 better now than before and they are reluctant to do much
18 more than what is currently being done.

19 The trainees who are proceeding to this advanced
20 qualification look upon this as an educational experience
21 as well as doing some work and by the law of the land they
22 do not themselves assume responsibility in the position
23 in which they are placed, and the profession generally
24 views their lot as perhaps one which could be improved,
25 but is relatively satisfactory in most provinces at the
26 moment.

27 THE CHAIRMAN: You surprise me on that, but I
28 don't know all about it, I must say. You believe that if
29 these educational costs were deferred until they did
30 reach a point where it meant something to deduct them,



1 which is five years after qualification, the next five
2 years beyond that, it would be some inducement to enter
3 your profession?

4 DR. BLAIR: We do, sir. We also think, as you
5 know from previous briefs, and in our brief we mention
6 we lose a percentage of our graduates to the United
7 States and we feel that if this were used, as you might
8 say, a tax credit, this would help to keep some here and
9 also help to bring those back, or some of them back, that
10 went down there to do their post-graduate work. We think
11 this is very important, because we need medical graduates
12 in this country at the present time. I am sure you know
13 that by this time.

14 THE CHAIRMAN: I am well aware.

15 COMMISSIONER PERRY: I was wondering what sort
16 of arguments the Minister of Finance would have to produce
17 to justify limiting this sort of concession to medical
18 students.

19 DR. BLAIR: We don't suggest it be limited to
20 medical students.

21 COMMISSIONER PERRY: I am wondering whether the
22 brief is clear on this. At the bottom of page 4 it
23 sounds to me as if you do.

24 "We recommend that fiscal policy be used to
25 equate the relative position of students in different
26 faculties as we believe that the length and cost of
27 medical education discourages the young student from
28 entering medical school."

29 DR. BLAIR: That is true. Ours is longer than
30



1 most and is more expensive than most and because of this
2 it is even more important that something like this be
3 done for the medical students than for others. We are
4 not limiting it to medical students. We believe the cost
5 of education should be treated in this manner, because
6 today government, business, etcetera is entering into the
7 pattern and helping students to acquire an education,
8 particularly in some of the industries. At the one time
9 Medicine did receive, as people wanted to get in, those
10 who were the top students in the universities all across
11 Canada. I am told today this is not so. These are being
12 taken off by these sciences other than the health
13 sciences and their expenses, etcetera, are being paid for.
14 It is only natural when a person is young this is quite
15 an inducement to them.

16 We feel it is essential there be some induce-
17 ment to those paying their own way, not being paid by the
18 Government or some other institution. We feel this is
19 one way that is quite an inducement to get these people
20 to provide their own way, to help to provide it to put
21 themselves through university.

22 COMMISSIONER PERRY: You would extend it to all
23 students?

24 COMMISSIONER GRANT: You would not apply the
25 means test?

26 DR. BLAIR: That is right.

27 COMMISSIONER GRANT: That would apply to
28 students who would be financed by parents well able to
29 put them through the university.

30 DR. BLAIR: Yes, sir.



1 COMMISSIONER PERRY: I compliment you on
2 picking the only other precedent for this sort of thing.
3 If there is anything else I can't think of it.

4 THE CHAIRMAN: You have a very good tax
5 committee.

6 COMMISSIONER MILNE: I think there is a
7 relation right to this particular point, because you
8 mention the contribution of the National Research Council
9 to those sciences which I think you italicize as being
10 the "glamour sciences". I take it from the context that
11 you feel this contribution is such that it does attract
12 the bright student to this type of science. Now, my
13 question really is: Have you any idea as to the numbers
14 who might have chosen that specifically because of the
15 contribution?

16 DR. BLAIR: That is difficult to say. I talked
17 to Dean McCreary of the University of British Columbia
18 and he said that this is becoming more noticeable all the
19 time. Not so long ago the top students in the university
20 were the ones we had applying for Medicine. This is not
21 so today. He has investigated to find out why and this
22 appears to be the reason. He was not able to tell me
23 the number. This is rather a difficult thing to show,
24 because if somebody says "I didn't intend to go in there
25 anyway" --- it is all in the person's mind as to what
26 they intended to do. The facts apparently show that
27 today, if I may use the term "glamour sciences", are
28 attracting more of the top students in the universities
29 today than they did a few years ago. The health
30 sciences used to attract them and they don't today.



1 We feel part of it is due to this reason: Their expenses
2 and their cost of tuition, etcetera, is being paid for.

3 COMMISSIONER MILNE: Do you think it is a
4 major part?

5 DR. BLAIR: We do.

6 COMMISSIONER GRANT: Dr. Blair, the Medical
7 Schools throughout Canada have to look to Government
8 assistance to a considerable extent, I believe, in the
9 raising of sufficient revenue to carry on. Now, if you
10 were to amend the Income Tax Act to give effect to the
11 submission here, that would mean that the Federal Govern-
12 ment was going to lose a certain amount of revenue and
13 might not that be reflected in the amount of money that
14 would be available to pay to medical schools? Or would
15 there be an inclination for the Federal Government to
16 pay more if they were not called upon to give up some form
17 of revenue such as you request or suggest?

18 DR. BLAIR: I don't think this form of revenue
19 would be that much of a loss to the Government and the
20 main thing, as far as we are concerned, is it is a
21 stimulus to the individual to have some responsibility
22 on his own to get his education and therefore if you look
23 further in the future the Government is going to be
24 responsible to put him all the way through, pay all his
25 expenses.

26 COMMISSIONER GRANT: It would be unfortunate
27 if the student was to get this concession income tax-wise
28 but find his tuition increased as a result or indirectly
29 as a result.

30 MR. FREAMO: It is very difficult to say that



1 it might increase directly as a result. We foresee that
2 the grants to medical education are going to have to
3 increase substantially over the next period of years
4 regardless of whether this thing is accepted or rejected.
5 A number of new medical schools will have to be built.
6 If the Government is going to do an adequate job, it is
7 going to have to put more money into this than it is
8 currently doing. They will be asked for more money even
9 if they are getting a reduced amount of income.

10 COMMISSIONER PERRY: Have you had any comment
11 from students as to how the present deduction for
12 tuition fees works out in practice? Does it meet most of
13 their problem of offsetting their Summertime earnings?

14 DR. BLAIR: No, their earnings are so small.
15 In medicine you have less opportunity because of the
16 longer length of time at the university. You have a
17 shorter earning time during the Summer. They have less
18 opportunity than the other students for earning enough to
19 put them through. Even though you do earn enough to put
20 yourself through it is not really much of a deduction at
21 that stage, because you would be paying very little tax
22 anyway. We feel this way, because in medicine primarily
23 your earning period of your life is short in relation to
24 others. What we are trying to do is extend it at both
25 ends, the front and the retirement end. At the retirement
26 end something has been done about it, but we want to
27 extend it in the front end. A lot of the students going
28 into medicine don't earn enough to put themselves through
29 and they have to borrow if they can.
30



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1 Then in their post-graduate, they are still borrowing,
2 so when they start in practice they are in the negative
3 phase so they have to pay that back. The biggest
4 difficulty starts when he is first in practice or shortly
5 after that, and that is the basic reason for taking it
6 away or making the option.

7 MR. FREAMO: To answer Mr. Perry's specific
8 question ---

9 COMMISSIONER PERRY: That is not quite the
10 question I asked.

11 MR. FREAMO: As you probably know, the major
12 objective of students at the university is to use this
13 deduction to get their earnings down to the point where
14 they still qualify as a dependent so that their father
15 can claim a deduction. With the amount of money he can
16 earn, most of them still end up as dependents. For the
17 medical student he has to have a pretty good job to even
18 have any hope of using this deduction whatsoever. He is
19 still qualified as a dependent because of the shorter
20 period of earning that he has.

21 COMMISSIONER PERRY: He could go up to probably
22 \$1,500.00?

23 MR. FREAMO: Yes.

24 COMMISSIONER PERRY: And he is not very likely
25 to earn that?

26 THE CHAIRMAN: Moving on to the next point,
27 "Cost of short-term study and refresher courses." It is
28 on page 7, I think.

29 DR. BLAIR: On page 9 "We earnestly recommend
30 that the costs of such refresher training be recognized



1 as a deductible expense of the practice of medicine and
2 we would suggest that the following conditions be estab-
3 lished to cover claims for deduction:

4 1. Officially organized refresher courses in
5 Canada and the United States should be recognized.
6 Each such course should be not less than two
7 nor more than 30 days.

8 2. The expenses claimed be reasonable and the tax-
9 payer show:-

10 (a) The dates and place of such a refresher
11 course supported by a certificate of atten-
12 dance from the sponsoring agency;

13 (b) The expenses incurred, including -

14 1. Transportation expenses

15 2. Registration or other fee charged for
16 the course

17 3. Maintenance, inclusive of meals and
18 hotel expenses

19 It should be pointed out that the doctor who
20 attends a refresher course has an additional although
21 hidden expense. He not only loses his current income
22 during his absence from his practice but the cost of
23 securing a replacement or 'locum tenens' may well exceed
24 the practice income during the period of his absence."

25 THE CHAIRMAN: I am sure we are all sympathetic.
26 We want our doctors kept up to date. Could a refresher
27 course be approved by your organization and a list
28 established?

29 DR. BLAIR: Yes.

30 THE CHAIRMAN: One medical association, the



1 College of General Practice, requires to the best of my
2 recollection, a refresher course, and I think I saw where
3 there was a requirement in here by somebody else.

4 DR. BLAIR: The only one we have, yes, is the
5 College of General Practice. They are the only ones we
6 know of who require this as a standard.

7 THE CHAIRMAN: Supposing such a deduction were
8 provided in the Act on the condition that it was required
9 in order to maintain one's certification for practice,
10 would that be fair and just?

11 DR. BLAIR: I think so. We are looking into
12 this ourselves too.

13 MR. FREAMO: Some thinking has gone along the
14 lines --- and this is very preliminary thinking --- that
15 we have to examine the problem of perhaps purely valuation
16 of the physician in the community. We are just in the
17 initial stages of the process.

18 THE CHAIRMAN: I would think it would be
19 easier for the Government to accept the need for this and
20 provide a deduction if it was compulsory and necessary to
21 the earning of the living. If it is optional for the
22 earning of the living, it is a little more difficult, it
23 stands to reason. If you would like to add anything to
24 this when you look into this matter further, I wish you
25 would write to us and give us your further views on it.
26 It is certainly a concern of my own, and I suspect of the
27 other Commissioners.

28 COMMISSIONER GRANT: I do not suppose there is
29 much in this thought, but is there any danger of
30 refresher courses becoming so popular in the profession



1 that you might find that medical services in a given
2 area were depleted beyond what is reasonable and safe?

3 DR. BLAIR: I don't think so. I really don't.

4 MR. FREAMO: At the moment we have one of our
5 major conventions. We probably attract as high a percen-
6 tage of doctors as is ever away from their practice. I
7 think very few communities would be left being terribly
8 understaffed.

9 COMMISSIONER GRANT: Yes, I was overlooking the
10 fact that you do have that privilege.

11 THE CHAIRMAN: I am a little nervous about this
12 being put on an optional basis. While it may be perfectly
13 suitable for your profession --- I am an accountant, and
14 we run refresher courses and I can see a similar demand
15 being made in respect of that. I would think if it went
16 there it would go to other places.

17 DR. BLAIR: We are suggesting that this be the
18 way it should be.

19 THE CHAIRMAN: I have some misgivings as to it
20 being of general application.

21 MR. FREAMO: I think some professions get
22 around it by calling them conventions when they are in
23 fact refresher courses. When there is a special need to
24 study a specific course we rather think it is a refresher
25 course. I think the whole area needs some thought given
26 to it.

27 THE CHAIRMAN: I think I would be very much
28 against too liberal a treatment of this sort of thing.

29 DR. BLAIR: We think there should be some, but
30 we do feel it should be essential that there be some type



1 of deduction for this to stimulate more of it. Even
2 today in medicine when we are not allowing these deduc-
3 tions, we have a tremendous amount of refresher courses
4 going on in all the hospitals all across Canada at the
5 moment to keep up standards of medicine, and this is
6 basically a must even though it is not a deduction today,
7 and we still have chaps attending it now. We are trying
8 to reach out and say we want to stimulate even more to
9 go away --- not at the moment --- but we want more to
10 partake of these courses that are supplied and are put on
11 by other doctors who do it free of charge.

12 COMMISSIONER GRANT: The Council of the Medical
13 Association or a Committee of Council would, I suppose,
14 be prepared to sit in with the Department of Health, for
15 instance?

16 THE CHAIRMAN: I have asked them if they could
17 provide a list.

18 COMMISSIONER GRANT: I was thinking of not only
19 preparing a list, but preparing a standard that these
20 courses would have to meet.

21 DR. BLAIR: The word "recognized" -- you see,
22 we suggest in here that it be a recognized course, and in
23 order to be a recognized course, it would have to meet a
24 standard.

25 COMMISSIONER PERRY: You would not think it
26 desirable to put an extra tax on doctors who do not take
27 a refresher course.

28 THE CHAIRMAN: Or, going further, that they
29 shouldn't practise unless they take the course.

30 COMMISSIONER PERRY: I was interested in the



1 point that you make in regard to the cost of a replacement.

2 Do doctors actually pay another doctor? I thought this
3 was sort of done on a club basis; you help one another and
4 take turns of filling in.

5 DR. BLAIR: In cities, for instance, where we
6 have groups, this is true. I am here today and I am by
7 myself in practice and I have to rely on the kindness of
8 my confreres to look after emergencies that happen while
9 I am away.

10 COMMISSIONER PERRY: You make no direct payment
11 to them for that?

12 DR. BLAIR: No.

13 COMMISSIONER PERRY: You are the fall guy next
14 time?

15 DR. BLAIR: That is right, but in smaller
16 places, as Mr. Grant mentioned a few minutes ago, in a
17 small community where there is one doctor and he wants to
18 go away, he can't leave this community on its own. He
19 has to supply a replacement in order to do this. I heard
20 of one in British Columbia just before I left. This chap
21 wanted a replacement in the north country near Prince
22 George, and he was willing to pay \$1,500.00 a month, and
23 he couldn't get one.

24 THE CHAIRMAN: You use the term "locum tenens",
25 which I presume means to hold in place or some such
26 meaning as that. Doesn't that indicate to you that the
27 man who takes on the job of locum tenens is paid?

28 DR. BLAIR: Yes, sir.

29 COMMISSIONER PERRY: Would the first doctor be
30 able to claim this as an expense?



1 DR. BLAIR: An expense of the practice.

2 COMMISSIONER PERRY: And in his income tax?

3 DR. BLAIR: Because he does not show that as
4 income, but the other chap has to show it as income. He
5 loses the income from his practice, and the income from
6 his practice may not be as high as the amount he has to
7 pay out.

8 COMMISSIONER GRANT: This burden of seeing that
9 the community is adequately served is left up to the
10 practitioners themselves? There is no regulatory body?

11 DR. BLAIR: No.

12 COMMISSIONER WALLS: Just one point that rather
13 disturbs me. As was brought out, you are allowed two
14 conventions a year. Your conventions are in no sense
15 a refresher course?

16 DR. BLAIR: No.

17 COMMISSIONER WALLS: And could not be interpreted as such?

18 DR. BLAIR: No, they are annual meetings. They
19 present papers, but they are not refresher courses. A
20 refresher course is quite different. It is a course that
21 is put on really to refresh someone. We frequently have
22 them where a chap who has probably been away from one
23 aspect of medicine and would like to bring himself up to
24 date on that aspect of it, and he takes a refresher course --
25 say in obstetrics and gynaecology. He hasn't done this
26 for a while and he goes to the hospital and arranges for
27 a refresher course, and probably he will have ten or
28 20 or 30 chaps there and they refresh themselves on that
29 aspect of medicine. A convention is an annual meeting.
30



1 They carry on business. Economics. They also have some
2 scientific papers given by guests coming from the United
3 States, parts of Canada or abroad.

4 COMMISSIONER WALLS: All right. Now, I can see
5 that far, but how do you define the difference between a
6 convention and a refresher course? Have you had any
7 difficulties with the tax authorities in stating that that
8 was a convention of gynacologists or whatever it happened
9 to be?

10 MR. FREAMO: We would have liked to see the
11 taxation department spell out in some more detail what
12 a convention was. We found them somewhat reluctant so to
13 do. They have approved our conventions, and in our own
14 mind we have felt a convention was a meeting at which
15 scientific papers were given, and as well, had a business
16 side; ~~that~~ it was a meeting of the organization in a
17 business sense. Now, this has been our own working
18 definition as to what constitutes a convention, but to
19 our knowledge no definition has been set down by the
20 Department.

21 COMMISSIONER GRANT: I suppose the function is
22 to look after provincial organizations or annual meetings
23 or national --

24 MR. FREAMO: We are allowed to go two conven-
25 tions anywhere in the world in any one year.

26 THE CHAIRMAN: You can go abroad and you do go
27 abroad?

28 DR. BLAIR: Yes, sometimes, and wherever you
29 wish. We do have provincial meetings, and we have our
30 Federal organization and our Dominion organization, and



1 if you went to both of them there you would be.

2 THE CHAIRMAN: The next is allowable deductions
3 for salaried physicians, and recommendations on page 11.

4 DR. BLAIR: ~~Yes~~, I would like for Dr. Klotz to
5 give you this. He is salaried, and we feel that he would
6 best be able to speak to this.

7 THE CHAIRMAN: He will speak with more feeling?

8 DR. KLOTZ: Our recommendations as spelled out
9 on page 11 are as follows: "We would therefore recommend
10 that consideration be given to legislation relating to
11 the deductions allowed to salaried persons which, insofar
12 as it affected the medical profession, would allow all
13 salaried physicians to claim as deductions reasonable
14 expenses paid from their own resources for: (1) Annual
15 membership fees payable to the Canadian Medical Association
16 and its provincial divisions" --- and our French counter-
17 part which I won't attempt to say --- "and other
18 recognized local, provincial, federal or international
19 medical associations; (2) medical books, scientific
20 journals and equipment; (3) attendance at conventions;
21 (4) attendance at refresher courses."

22 As you intimated, Mr. Chairman, I can speak
23 feelingly on this as a salaried physician. For your
24 information, I am chief of the Department of Pathology
25 at the Civic Hospital here. As you are well aware with
26 the socialization of our hospitals, we are no longer
27 masters of our economic fates, and I think most
28 hospitals --- certainly mine is very sympathetic towards
29 the needs of their employees to maintain their
30 professional skill and they do all they can to encourage



1 us to attend refresher courses.

2 However, our hospital budgets are very critically
3 scrutinized by the various commissions with the result
4 that allowances for travelling and attendances at these
5 particular things are drastically reduced. In my own
6 department I have a staff of roughly 130 people, which
7 includes six full-time medically-qualified individuals.
8 The rest is made up of technicians, stenographers and so
9 on. Amongst the technical staff there are probably 15
10 who would be entitled to be sent away to refresher
11 courses in their particular field.

12 In submitting my annual estimates, I budget for
13 this anticipated cost somewhere in the neighbourhood of
14 \$7,000.00 or \$8,000.00 a year. When the budget comes
15 back as approved, it has been whittled down to \$1,500.00
16 or \$1,700.00 which has to be split amongst this many
17 people, and you cannot begin to cover this expense out
18 of monies made available from the hospital and those who
19 attend these courses have to underwrite their own costs.

20 THE CHAIRMAN: This is a budget for what
21 purpose?

22 DR. KLOTZ: For attending conventions,
23 refresher courses.

24 THE CHAIRMAN: And so you do provide some money
25 to your employees for such attendances?

26 DR. KLOTZ: A small sum, yes. It averages out
27 at about \$80.00 per head per year. I came back a few
28 days ago from having spent a month in Chicago, about
29 80% of which was at my own expense.

30 THE CHAIRMAN: On these items 1 to 4, referred



1 to by you a minute ago, what would be your estimate of
2 a fair average cost of the whole lot for a doctor of your
3 seniority?

4 DR. KLOTZ: This is very difficult to estimate,
5 Mr. Chairman, because the picture differs from one
6 hospital to another. For example, some hospitals do
7 support their professional staff to the extent of paying
8 their costs for membership in various associations. In
9 my own situation my hospital has been very generous in
10 supplying us with books, journals and magazines. On the
11 other hand, we do not have any benefit or enough benefits
12 regarding attendance at professional courses.

13 In other situations, some pathologists and
14 other professional people employed at hospitals, are
15 given a travel allowance over and above their salary to
16 cover this, so it would be difficult to strike an
17 average, in answer to your question.

18 THE CHAIRMAN: And of course we are concerned
19 about the administrative difficulty of dealing with
20 these things, and the purpose of my question was to seek
21 an easier way than the listing of vouchers for such
22 items as we have mentioned here. I am wondering if
23 there is a round sum which would approximate it, or
24 anything of that kind, and you tell me there is not?

/SS 25 DR. BLAIR: Doctors who are practising who
26 are not on salary at the moment are able to take off any
27 membership fees for Provincial, Federal, or international
28 organizations, expenses of medical books, scientific
29 equipment and journals, attendance at medical conventions.
30



1 So the first three are allowable for those in private
2 practice or those not on salary at the moment. We have
3 very little difficulty with the method. To allow it to
4 salaried physicians, which we think we should allow, would
5 not increase the administrative problem any more.

6 THE CHAIRMAN: I am concerned in going beyond
7 your profession. I am not asking you to solve that, but
8 we obviously have to think of the broadest terms to say
9 "yes, this is excellent for doctors"; we have to be
10 concerned about all kinds of salaried people, people who
11 use tools of any kind.

12 COMMISSIONER PERRY: Do you have any figures as
13 to the numbers of doctors in employment?

14 DR. KLOTZ: Those figures are available.

15 COMMISSIONER PERRY: I think in fact we have
16 them before us.

17 MR. FREAMO: I think full-time employment
18 includes internes in residence and this is not a good
19 picture of the graduate doctor in full-time employment.

20 COMMISSIONER PERRY: I think it has already been
21 put before us.

22 COMMISSIONER GRANT: It seems to me there would
23 have to be more evidence submitted to the Commission than
24 the Commission now has either through this brief or other-
25 wise to give full study to the submission which you are
26 now making. You suggest that the salaried physician is
27 going to be allowed to deduct from his salary the cost of
28 attending refresher courses over and above which your
29 administrative body will recognize, because they are
30 always recognizing that it is desirable for some members



1 of your staff to attend. We are just taking your
2 particular staff as an example. We will say they cut you
3 down from a budget of \$7,000.00 to cover this particular
4 item to, say, \$1,500.00 or \$1,700.00. Now, in so doing
5 they may be influenced by the fact we are not so much
6 concerned with the cost as we are with the time these
7 people are going to be away. Is it desirable to take 15
8 or 17 fully qualified practitioners away from their duties
9 to attend this course, desirable as it may be for them to
10 improve their knowledge and skill. There is the fact
11 involved: Can we afford the men to be away or can they
12 get this information through their own studies or some
13 other source instead of attending every year? Would it
14 be adequate to attend every third year, for instance?
15 Your administrative body may be taking some of these
16 things into consideration when they cut your budget.
17 Would you have any news on that?

18 DR. KLOTZ: The paring is not done at the
19 hospital level. It is done at the level of the Commission
20 and at the Commission level it is not done by the
21 Department, but done on the total budget. When the
22 hospital has an item approved they prorate it amongst
23 4,000 people they employ.

24 I don't think the points you brought up are the
25 reasons behind it. I think the Commissions are trying to
26 maintain a per diem rate at as low a rate as possible.
27 When this question has been previously presented the
28 Department of Revenue has always suggested that these
29 expenses would be allowable if they were written into the
30 terms of employment of the salaried doctor. I think this



1 is a very theoretically sound proposal. It is just not
2 practicable.

3 DR. BLAIR: We have also been talking about the
4 beneficent employer. We are also thinking of the employer
5 who does not allow any of these expenses at all. This is
6 a greater hardship for the individual who is not allowed
7 any of these. His employer doesn't pay any for him.

8 THE CHAIRMAN: Doctors working for governments,
9 I presume, would have difficulty in that respect. The
10 governments would find it difficult to provide for that
11 amount of cost.

12 COMMISSIONER WALLS: With the relative shortage
13 of doctors would that not be included in the terms of
14 employment and the salary allotted? If it were lacking
15 in these particular requisites would it not be made up in
16 some other form?

17 DR. BLAIR: We would like to think so. We have
18 endeavoured to do this, but to date we have been unsuccessful.
19

20 DR. KLOTZ: At the practical level it depends
21 on the ability of the individual to negotiate with the
22 hospital. I have endeavoured to do so unsuccessfully.

23 THE CHAIRMAN: We will move on. Deductions
24 allowed for personal medical expenses. These are the
25 recommendations on page 18.

26 MR. FREAMO: We, therefore, recommend that
27 three alternative deductions be allowed for personal
28 medical expenses and that the taxpayer be allowed to
29 deduct: (A) A standard deduction of \$25.00; or (B) the
30 total of medical insurance premiums paid from his own



1 resources during the taxation year, excluding premiums
2 paid for basic hospital insurance coverage; or (C) the
3 amount which is total expenses, computed on the basis of
4 eligible expenses as now outlined in Section 27 (1) (c),
5 exceed 1.5% of his net income."

6 THE CHAIRMAN: You mean what should be written
7 into the law is; ~~is he~~ is he entitled to the highest of A, B, or
8 C or what should be written into the law is one of either
9 A, B, or C?

10 MR. FREAMO: He may claim whichever one of A,
11 B, or C he wants to claim, which would mean the highest
12 deduction. I would imagine that would be the one he would
13 normally claim.

14 COMMISSIONER PERRY: I find a little inconsis-
15 tency here between your frequent restatement of what is
16 the basic philosophy of this provision, that is to
17 recognize the very heavy year of expense; an inconsistency
18 between that and the suggestion that the floor be removed
19 for at least purposes of two deductions, your first two
20 alternatives.

21 MR. FREAMO: We admit the inconsistency in the
22 argument. The problem is you have to marry two or three
23 problems which are inherent in this business, one of
24 which is the tax advantage given to people to secure a
25 benefit paid by their employer. If we only had to worry
26 about one or the other of the inequities which we see in
27 the existing legislation, we could probably be less
28 inconsistent in the recommendations forthcoming, but
29 there is no clear way of setting them out and avoiding
30 all of the problems which we see in the legislation.



1 COMMISSIONER PERRY: I suggest on the fringe
2 benefit aspect you are focussing rather narrowly on this
3 particular phase. Undoubtedly there are benefits to an
4 employed person from employer fringe benefits. At the
5 same time almost any self-employed person would admit he
6 has concessions which are not available to the employed
7 person. I am not saying this is right, but it is a fact.
8 I am not even suggesting these things balance up. I think
9 it is one of the facts that has to be looked at and there
10 is no more inequity or anomaly involved in the way the
11 employers' claims for health insurance are treated than any
12 of the other benefits which are part of the broader
13 question. I must say I am not too much impressed with
14 that particular argument. Nor am I too upset about the
15 fact that the standard deduction includes two first dollar
16 deductions. There is an anomaly inherent in a deduction
17 which is given without regard to the circumstances, but
18 it doesn't seem to me inconsistent at all that the
19 taxpayer has the privilege to work out what his medical
20 expenses would be, applying a floor, adding to that
21 charitable donations and union dues and if they come to
22 \$75.00 in all, he is privileged to deduct \$100.00.
23 This doesn't seem to me inconsistent at all. It is an
24 administrative device with a slight amount of generosity
25 in it. However, perhaps you can come back on that one.

26 MR. FREAMO: I would suggest it probably has
27 a slight amount of generosity in it and it is higher than
28 we would like to see in its application for people who
29 do not have other deductions to make. I still think that
30 in the exemption now used we are mixing apples and



1 oranges. You are putting in a deduction to ease the
2 administrative expense of large-scale handling of the
3 first dollar deductions, but you have an inherent built-in
4 device to do this for your medical expenses without
5 bringing the three together at all. It could stand on its
6 own. It has got rid of the administrative problem of
7 large-scale accounts. That is why they have dealt with
8 apples and oranges in trying to bring these three
9 together in one standard deduction.

10 COMMISSIONER PERRY: I am afraid in the tax
11 world you are up to your neck in fruits of all varieties
12 all the time. However, I do think that you have made
13 quite a telling point in regard to the floor, that
14 probably in logic it should be reduced to $1\frac{1}{2}\%$. As you
15 realize, this is what is generally shown by the consumer
16 expenditure figures as being the portion of personal
17 income tax which is spent on medical treatment. In fact
18 it is closer to 4%. As you insure one element of that,
19 naturally that means that a smaller element is being
20 spent on medical treatment and therefore the floor by
21 which you measure these things should be reduced. I
22 think this is quite an acceptable argument.

23 DR. BLAIR: The floor was originally 4% and
24 then reduced to 3%.

25 COMMISSIONER PERRY: I say the argument is
26 ingenious and there is a lot in support of it. Whether
27 it is acceptable or not, I don't know. I am afraid I
28 end up on this where I came in. It is a deduction for
29 fluctuating medical expenses and in fact I would think as
30 all medical expenses become insured this thing will just



1 work it self out of the system. Its original reason for
2 being will have disappeared. The only argument I can see
3 to the contrary for that is your point that it does offer
4 some incentive for people to join group schemes, which can
5 be argued quite properly. The tax law is used for all
6 kinds of incentive purposes.

7 THE CHAIRMAN: Perhaps I didn't read this
8 sufficiently carefully. I must say it seems to me what-
9 ever we have now needs some correction in view of the
10 fact, as you point out, a very large part of the population
11 has now got some form of protection. If that is the
12 case, we have regard to the public expenses in Section 27
13 (1) (c). Why not have regard to the total expenses in view
14 of what he recovers on his insurance or plans or whatever
15 they may be? This is protection against disaster, is it
16 not?

17 DR. BLAIR: The amount which is total expenses.
18 It means bringing 3% to 1½%.

19 COMMISSIONER PERRY: When you say total you don't
20 have in mind including the hospital bill, which is insured.

21 DR. BLAIR: That is the reason for suggesting
22 the floor be lowered, because the hospital expenses cannot
23 be included as total expenses.

24 COMMISSIONER PERRY: You are speaking of the
25 same total as we have now. You are not going back to
26 anything?

27 DR. BLAIR: That is right, the same as we now
28 get from Concession (c). It does not include hospital
29 expenses.

30 COMMISSIONER PERRY: (c) means you reduce the



1 floor from 3% to 1½%.

2 THE CHAIRMAN: I think I made a profit on an
3 illness. I was entitled to take all my medical expenses,
4 obviously not hospital expenses. You have just told me
5 that. I was also able to recover my medical fees from
6 the Ontario Physicians and Surgeons and therefore by the
7 time I had done that I think I was ahead. I am not very
8 sure.

9 MR. FREAMO: You may be, sir.

10 DR. BLAIR: That probably was when they included
11 the hospital costs as well.

12 MR. FREAMO: This is the problem we see. You
13 mentioned the possibility of taking their total expenses.
14 I would feel that the Department would have to have a
15 small army of investigators to try and find out what the
16 net position really was. There are so many different
17 types of insurances they could never tell except for
18 their standard coverages such as P.S.I. The Department
19 would never know whether a particular expense was or was
20 not included under your coverage. It would be a very
21 difficult one to administer.

22 THE CHAIRMAN: So I guess we have to go on
23 letting people like myself make a profit.

24 COMMISSIONER PERRY: You can't make a lifetime
25 of it!

26 DR. KLOTZ: It is not a healthy occupation.

27 THE CHAIRMAN: We move on to automobile expenses.
28 You point out the justice here is rather rough, I think.
29 We don't seem to have a very happy solution to this. What
30 do you wish?



1 DR. BLAIR: We are suggesting at the bottom of
2 page 19: "For these reasons we believe that the
3 definition of the word 'use' as it applies to capital
4 cost allowances for doctors' cars should not be related
5 to the number of miles travelled, but rather that the
6 definition should take into consideration the essential
7 function of availability as it applies to medical practice."

8 Further down we say "We would recommend that
9 consideration be given to a change in the legislation to
10 accomplish this end."

11 THE CHAIRMAN: I was not very clear what kind of
12 change, because the use is not in the legislation. I
13 don't think it is in the way the legislation is adminis-
14 tered. Do you want something written into the law to
15 state deductions would be permitted?

16 MR. FREAMO: The way the law is now written,
17 the Department has to prove that some other use exists,
18 but once they prove that another use exists, the Depart-
19 ment can then determine itself what the proportion of use
20 is, and it is up to the taxpayer to argue with the
21 Department as to where this should be.

22 Our concern is that there must be beyond the
23 doctor's automobile, other pieces of property which, by
24 their nature, are inherently absolutely essential; the
25 nature of the business which the taxpayer is carrying on,
26 and it should be treated, if they would qualify him to
27 this definition, differently from what now applies under
28 the Act, under 20 (6) (e).

29 THE CHAIRMAN: I am of the impression that once
30 this gets down to the sort of standard uses of the



1 automobile, the taxpayer generally comes out on top.
2 That is not so?

3 DR. BLAIR: That is not so. They are changing
4 it a bit.

5 MR. FREAMO: The problem being if they want to
6 differentiate on the automobile in terms of the number of
7 miles driven, we have to agree this is a fair way of
8 assessing current operating costs of the automobile, but
9 we do not think it is a fair way to assess capital cost
10 allowance.

11 THE CHAIRMAN: Yes, I think we understand that
12 one.

13 DR. BLAIR: Then we move on to "removal of the
14 Federal sales tax on drugs". Because of the high cost of
15 drugs, we therefore recommend that: (a) That consideration
16 be given to altering the method of applying the Federal
17 sales tax from the manufacturer's level to the retail
18 level; and (b) that the sales tax be removed from pres-
19 cribed drugs. After the first one takes place, then you
20 can do the second one, but if you do not do the first
21 one, you cannot apply the second one adequately.

22 THE CHAIRMAN: Does that mean prescriptions,
23 or does it mean any drug of any kind?

24 DR. BLAIR: No, prescriptions. Maybe we should
25 change that word to "prescription drugs".

26 THE CHAIRMAN: I will put it in quotation
27 marks in my own copy. I thought it did, but I was not
28 sure.

29 COMMISSIONER WALLS: Beyond wanting to bring
30 into line the price paid for drugs by consumers out of



1 hospital and that paid by consumers when they are in
2 hospital, what real argument do you have that drugs
3 should be exempt from sales tax?

4 DR. BLAIR: One of the biggest arguments I
5 think was in the high cost of drugs today, and this is
6 one way of lowering them and equalizing the cost that
7 is paid in hospital as opposed to those that are paid
8 outside the hospital.

9 COMMISSIONER WALLS: Yes, but then you might
10 just as well say that both should pay tax. That would
11 be another way of creating an equalization. What I am
12 getting at, there are many products that people consider
13 are too high in price. There must be some other basic
14 reason why you think that drugs especially should be
15 picked out.

16 DR. BLAIR: Because they have to deal with
17 sickness, and when you are dealing with a person that is
18 sick, it is an essential. If a person is sick, it is not
19 a luxury. He has to have the drug if he is sick. In
20 other words, a doctor has prescribed the drug, therefore,
21 he has to have them. This is one of the reasons that we
22 feel it should be without a sales tax.

23 THE CHAIRMAN: You think essentials should not
24 be taxed?

25 DR. BLAIR: Basically sickness should not be
26 taxed.

27 COMMISSIONER WALLS: One argument that was
28 put before us some time ago was that there was a heavy
29 preponderance in drug buying by older people, and there-
30 fore the amount the pensioner would pay would be out of



1 relationship... Would the argument not be there rather,
2 increase the old age pension to take care of such things?

3 MR. FREAMO: I think one can argue as far as
4 any sales tax is concerned it has a greater application
5 on persons of low income and older people in reduced
6 circumstances than it has on others in the working unit.
7 It is a very difficult situation.

8 Governments and government committees have
9 taken a look at the cost of drugs. We feel that one very
10 effective and efficient way if you are interested in the
11 cost of drugs is to get out of the field of taxing. This
12 would be one very nice way of reduced cost to the person
13 who is ill, and I think it is important to consider that
14 it has been estimated that the Government's position on
15 Government sales tax --- their income is greater than
16 the combined net profits of all the drug companies in
17 Canada, and if we are talking about things that influence
18 the cost of drugs, we should keep these things in
19 perspective.

20 COMMISSIONER WALLS: Would you then only apply
21 it to prescribed drugs and not to patented drugs when in
22 many cases they are the same thing and serve the same
23 purpose?

24 MR. FREAMO: The problem with prescribed drugs,
25 we feel there is a control here. Once we go beyond this
26 area it would probably be necessary to be very precise
27 as to drugs which are included and which are excluded.
28 There is really a tremendous dollar volume of commodities
29 labelled "drugs" and sold in the drugstores which in the
30 opinion of the profession have a doubtful value to the



1 recipient.

2 COMMISSIONER WALLS: But surely the medical
3 profession can supply the Government with a list of what
4 would adequately come under the term of drugs rather than
5 just what is sold in drugstores.

6 MR. FREAMO: I think this might be possible
7 under the situation which we are now considering, which
8 is to have an end sales tax. We had given consideration
9 to the possibility of such a list under our provincial
10 sales tax provision, and we had to throw up our hands.
11 At the manufacturer's level we don't know whether a
12 particular drug is going to go into a drug or animal
13 fertilizer or animal food or what have you, so we are at
14 a loss in this business of trying to prepare a list under
15 the present sales tax situation. However, it should be
16 easier on an end tax situation for us to have the
17 Committee look at this.

18 COMMISSIONER WALLS: You have just made a
19 statement a minute ago which I would like you to enlarge
20 upon, and that is when you are dealing with drugs used
21 as components in animal foods and ~~commercial~~ fertilizers.
22 If you make it the end use, the feed companies that
23 supply farmers with livestock feed, would become the
24 retailer, and they are also the mixer of these feeds,
25 and it has always been exempted as being a component in
26 the price of food and has been exempt always from sales
27 tax in Canada; as far as I know is exempted in other
28 countries too. You are now suggesting these drugs that
29 are used as a component in the production of feed should
30 be taxed?



1 MR. FREAMO: What we are saying, our problem
2 here is to take in the drugs and the part of drugs we know
3 that the doctors give to patients. We would like to find
4 a way wherein sales tax would be removed from those. We
5 feel other people have a perfect right to say whether
6 they feel sales tax should be removed in their own area,
7 but we are dealing with an area where we think sales tax
8 should be removed to meet the need as we see it.

9 THE CHAIRMAN: As you say, you can only identify
10 those items on end use. I am not sure you may only be able
11 to identify them if the tax was on the wholesale basis.
12 If the tax was on the goods purchased --- when they are
13 going into a drugstore you know what their end use is
14 going to be.

15 MR. FREAMO: If we stick strictly to the
16 prescribed drugs issue, we would not be able to do this,
17 because some drugs that a drugstore will buy may be sold
18 on a prescription or may be sold over the counter. Now,
19 if we went beyond that and were able to set out a list
20 for you that is more specific, it could be made to apply
21 on the wholesale level.

22 COMMISSIONER PERRY: All I got out of it is that
23 humans seem to consume things that are also used in
24 animal fertilizer. It sounded a little repulsive to me.

25 THE CHAIRMAN: We will move on to the next one.

26 DR. BLAIR: "Exemption from sales tax for non-
27 profit institutions of medical education and medical
28 research. We would recommend that consideration be given
29 the elimination of sales tax on scientific equipment
30 required for medical education and research."



1 THE CHAIRMAN: You draw attention to a univer-
2 sity purchase which is subject to sales tax, whereas if
3 it had been bought for a hospital it would not be.

4 MR. FREAMO: Yes.

5 THE CHAIRMAN: I think they have a point there.

6 DR. BLAIR: "Removal of the customs duty on
7 rehabilitation appliances and equipment not manufactured
8 in Canada." This may not be within your terms of reference,
9 and we are not sure.

10 THE CHAIRMAN: I am surprised at the exemption.
11 from customs duty. These goods are not competing with
12 Canadian industry? You are correct about this, are you?

13 DR. BLAIR: Yes, we are.

14 COMMISSIONER WALLS: Your Association has
15 appeared before the Tariff Board on that?

16 MR. FREAMO: We don't basically do this, and
17 there are a number of organizations that are intimately
18 concerned in this, and it appeared that we sort of give
19 them our support, but we are not primarily interested in
20 carrying the ball on this problem.

21 I am sure the biggest problem is something new
22 that comes out. It is not specifically exempted, so
23 until some order is made that specifically exempts it,
24 it has to pay duty. The thought of the people most
25 intimately concerned with this is that if it were
26 possible to have things in a similar kind and class
27 handled in that fashion that could more quickly get these
28 items freed from customs.

29 THE CHAIRMAN: I am concerned about this
30 retirement savings plan memorandum that you have sent in.



1 Our time is evaporating very fast. We have not really
2 provided adequate time to deal with this memorandum fully.
3 Suppose you take a minute or so and tell us what is in
4 here.

5 DR. BLAIR: Mr. Chairman, Mr. Freamo could
6 probably do it faster and better than I could. He is
7 the expert.

8 MR. FREAMO: If I could just talk three or four
9 minutes on a few specific paragraphs. The first two
10 paragraphs just say that we have this plan and the number
11 of people in it. The third one poses our problem. The
12 problems which we wish to discuss with you today are
13 future problems which we foresee rather than present
14 ones which we have to face. They arise because our
15 projections of the future equity of our participants
16 reach significant proportions, and in the future it will
17 not be unusual for participants to have an equity at
18 retirement of \$100,000.00 to \$300,000.00.

19 One of the future problems which we foresee
20 is the possibility of a participant's death prior to
21 retirement at a time when his equity in our plan is of
22 these substantial proportions. The refund of premiums
23 which would occur would attract substantial estate
24 taxes and succession duty. The inequity which we see
25 is that the same taxpayer would have had available to
26 him the opportunity to reduce the effect of these taxes
27 through gifts, if he had chosen to accumulate his savings
28 in another form of property.

29 And the next is an illustration of the
30 problem we feel we will have, and then we say that some



1 experts have proposed loopholes or gimmicks to avoid the
2 impact of estate taxes and succession duties, but for
3 reasons which are outlined later in this submission we
4 consider these to be of doubtful validity. What I call
5 gimmicks, the setting up of personal corporations and
6 the use of living trusts. Now, for this particular piece
7 of property I do not think that it would legally qualify
8 under either one of these sets of circumstances.

9 Personal corporation is just a little doubtful, but I
10 would hate to have my money all resting on it and waiting
11 judgment at the succession court level. The problem is
12 on this particular piece of property you can assign a
13 death benefit which is a refund on premiums. This is not
14 unassignable; therefore, theoretically you could assign
15 this to living trust or personal corporation, but it is
16 not completely given because this death benefit is only
17 paid over in the event you die before you retire, and if
18 you end up living beyond 71 years and you have to take an
19 annuity out of this, I think the gimmick of having it
20 through this means is not a good one, and I do not really
21 think basically in law we should be looking for the
22 gimmick approach to equalize a tax position.

23 THE CHAIRMAN: I quite agree. The law should
24 not be conditioned on having to go by a circuitous route
25 in order to carry out the intent of the law.

26 MR. FREAMO: There is another way in which this
27 can be done which has been accepted to some degree, and
28 that is the use of trading with the insurance company a
29 single premium payment for an annuity in return for your
30 wife taking out a 90% insurance policy. This has been done.



1 Property is then in your wife's name, and there is no
2 problem, and you give the insurance company your lump sum
3 payment for a contract which ceases to make benefits
4 payable on your death. This is a nice handy arrangement
5 which manages to transfer property from you to her
6 seemingly at the moment without estate taxes.

7 However, again to me this is a gimmick, and I
8 do not think it should fall on this committee as to how
9 this particular problem should be handled.

10 Another problem is when an individual goes
11 past the retirement age. The likelihood we see at the
12 moment is that more of them are going towards joint-
13 survivorship annuity for the wife, but most wives are
14 younger and live longer. The problem is invariably set up
15 that the husband dies before the wife and the property is
16 valued for succession duty. Our concern is with these
17 very high amounts that we may well be facing, taxes will
18 be levied and inequities will be created.

19 The situation here, a wife has an annuity on
20 this basis of \$600.00 a month, where the net effect of
21 it would be to take \$250.00 a month off this to pay
22 succession duty and income tax for this period subsequent
23 to the death of the husband, and this is not an unusual
24 case.

25 We list four problems which we feel are inherent
26 problems in Section 79 (b) and the plan set up on this
27 basis. We feel that consideration should be given to the
28 possibility of having property arising from participation
29 in either an approved employer-employee pension plan or
30 registered retirement savings plan or annuities accruing



1 therefrom exempted from the application of estate duties
2 and succession duties.

3 The reason we say that, we feel there is an
4 increasing tendency of the taxpayer to use this method
5 of saving. They view it not as an effort to accumulate
6 capital, but rather an accumulation which will be
7 expended during the retirement years of both the husband
8 and wife. They certainly view it as a joint effort. As
9 the law now stands no hardship is evident if both husband
10 and wife enjoy longevity or where the wife predeceases
11 her husband. Unfortunately statistics and mortality
12 rates militate against this desired course of events
13 producing a result which we believe to be inequitable.

14 An important byproduct of these forms of saving
15 is, of course, the creation of funds of substantial size
16 which are used for investment in capital projects, largely
17 in Canada. If the continuance of present legislation
18 creates an interaction which results in a decreased use
19 of retirement savings plans, this must have a detrimental
20 effect on the amount of savings available for investment.

21 To go back to page 1 and generally to Paragraphs
22 1, 2, 3, 4 and 5, our problem as we see it, these people
23 are somewhat dependent on us for advice at the present
24 time. We feel disposed to advise a participant that he
25 should not accumulate an equity in the fund, in our fund,
26 beyond what would increase to about \$100,000.00 upon his
27 expected retirement date, assuming a conservative rate
28 of growth in the interval, without examining very closely
29 the combined effect of income, estate and succession
30 duty taxes on the property which he is accumulating.



1 Some of our participants will reach this position by the
2 time they attain 45 years of age and under present
3 legislation it is doubtful whether the possible benefits
4 which would accrue from their further contributions would
5 offset the adverse tax position which would be
6 encountered if they happened to die before retirement.

7 But this is the basis of it. We apologize for
8 bringing it up at this late date and it came out of the
9 study being done. Again, it is not a problem which we
10 are going to have for five years, or most employer-
11 employee plans will not face for another period of time.
12 It is going to pose very difficult problems about
13 different treatment of capital, depending on how it is
14 accumulated.

15 THE CHAIRMAN: Thank you very much. You have
16 explained it very clearly and very quickly. I for one
17 understand it.

18 COMMISSIONER GRANT: I should like to ask one
19 or two questions in connection with it. You are referring
20 to a plan which the Canadian Medical Association has
21 established on a trustees basis and in which all members
22 are eligible to contribute. Now, when you mention that
23 you are getting sums reaching the proportion of
24 \$300,000.00. It would indicate that there is no maximum
25 amount to which a participant may contribute.

26 MR. FREAMO: There is, sir. It is \$2,500.00 a
27 year. If an individual at the age of 30 starts to
28 contribute until he is 70 and accumulates this at the
29 average rate of 5%, this totals \$310,000.00 at age 70.

30 COMMISSIONER GRANT: I was wondering whether or



1 not you were overlooking the fact there is a ceiling.

2 MR. FREAMO: There is a ceiling, sir.

3 COMMISSIONER GRANT: It has also to be
4 acknowledged this is a voluntary movement and should any
5 doctor decide that he is putting too much money in this,
6 then he can drop out or drop down?

7 MR. FREAMO: Right.

8 COMMISSIONER GRANT: I subscribe entirely to
9 the advice you have given as set forth in Paragraph 5 of
10 the first page which seems to be very sound. In other
11 words, if a doctor wishes to take advantage of what I do
12 not subscribe to, but which you term "gimmicks" arising
13 out of certain statutes, if they wish to take advantage
14 of some of the privileges which the statute permits them
15 to take advantage of, then they could ease up on their
16 contributions. They could use their own knowledge as far
17 as investments are concerned. They could use the gift
18 provisions which the Act now permits. They could also
19 make use of insurance whereby a wife could now receive a
20 premium from her husband and insure his life and become
21 the owner of the policy.

22 MR. FREAMO: Just to correct the impression I
23 may have left, I do not consider these things to be
24 gimmicks as they apply to property other than the amount
25 accumulated in the retirement savings plan. I think there
26 is doubtful validity in the situation of signing a
27 possible death benefit or refund of premiums to a
28 personal corporation. This I feel is a gimmick. There
29 is nothing wrong at all in signing over property you have
30 while setting up a personal corporation and having that



1 corporation make gifts. This, I think, is legal and
2 should be encouraged. My concern is there is little
3 anomaly present in this property carried under the
4 Registered Retirement Savings Plan where there may or may
5 not be a situation where you can form a personal corpora-
6 tion. It may be if you do die before the age of 71 this
7 is in fact a legitimate assignment of refund of premiums.
8 If you live beyond 71, it is not a legitimate assignment.
9 These are problems I foresee on this which I hope you
10 will straighten out.

11 Again we feel that the Government does set out
12 certain maximum arrangements and says you may contribute
13 up to these amounts. I don't think it is in their minds
14 that the situation would arise that you would contribute
15 up to the age of 45 and then with the legislation set up
16 it would make it iniquitous or present an iniquity for
17 you to make any contributions whatsoever.

18 COMMISSIONER GRANT: The plan was designed to
19 permit a person in the years in which his earnings were
20 high and consequently his income tax was high to defer
21 by a tax-free payment the income tax which he would be
22 now called on to pay until a later date when his income
23 would be lower and hence his income tax bracket would be
24 lower. That is the main purpose of the plan.

25 MR. FREAMO: The problem we foresee, of course,
26 is that the 15%, coupled with the percentage of estate
27 and succession duty taxes the individual might pay, these
28 two things would completely offset any advantage he now
29 gets. If it just a matter of comparing income tax now
30 against income tax later, this is a fair comparison which



1 the individual might be required to make. When you compare
2 the income tax now against the combined effect of income
3 tax, estate tax, and succession duties, this is when you
4 have problems.

5 COMMISSIONER GRANT: If it is not in this form
6 of savings it would be in some other.

7 MR. FREAMO: You could get rid of it by gifts.

8 DR. BLAIR: With this method you have now
9 disturbed the setup for estate tax and by this method if
10 a person puts his savings into this method he would be
11 increasing his estate tax. If he used the former method,
12 he would not be increasing. It would be the same as it
13 is. By using this method the estate tax is greater. He
14 cannot give any away as gifts.

15 COMMISSIONER GRANT: If he doesn't want to,
16 he doesn't have to go into the plan.

17 DR. BLAIR: There is one other point I would like
18 to make. If he dies before retirement the 15% income
19 tax which is deducted for this is included in his estate
20 and we feel this is an iniquity. We feel the 15% income
21 tax should be deducted and then his estate apportioned
22 from there down. At the moment it is included.

23 COMMISSIONER GRANT: I think you have a very
24 good point.

25 COMMISSIONER PERRY: The Chairman was forced to
26 take an urgent telephone call and has asked me to
27 conclude the meeting on his behalf. In doing so I would
28 like to thank you very much for your excellent presenta-
29 tion. We have been covering a lot of ground this morning
30 as you can well understand. On behalf of the Chairman I



1 can assure you that we will give full consideration to
2 all the points you have made. Thank you very much for
3 coming before us.

4 We will stand over for five minutes before
5 hearing the next witnesses.

6
7 --- (Short recess)

8
9 THE SECRETARY: The third submission before us
10 this morning is being presented by the Canadian Business
11 Equipment Manufacturers. There were two briefs submitted,
12 one on June 21st and a supplementary brief just received
13 on September 25th. We have before us Mr. H. W. Looseley,
14 President of the Association, together with T. D. Howe,
15 Vice-President and Chairman of the Committee on Government
16 and Taxation, together with Mr. B. A. Diekman who is
17 Vice-President of the Committee.

18 I would like to enter the brief and supplementary
19 brief into the record as Exhibit 221.

20
21 ---EXHIBIT NO. 221: Submission of Canadian
22 Business Equipment
23 Manufacturers.

24 SUBMISSION OF
25 CANADIAN BUSINESS EQUIPMENT MANUFACTURERS

26 APPEARANCES:

27 H.W. LOOSELEY

28 T.D. HOWE

29 B.A. DIEKMAN
30



1 THE CHAIRMAN: Good morning, Mr. Looseley, and
2 gentlemen. We have read your submission with a great deal
3 of interest. Sales tax is a complex and difficult subject
4 and we have heard a good deal on it, and we have had you
5 coming at us from many directions. If there is any
6 unanimity it seems to be that the tax shall be moved from
7 where it is now. There are different suggestions as to
8 where it goes and how it gets there. Before we ask
9 questions about it, would you like to say anything to us,
10 Mr. Looseley?

11 MR. LOOSELEY: We had purposely confined our
12 presentation to sales tax because we feel that we would
13 like to make a rifle shot instead of a shotgun blast and
14 I think that the brief is pretty well self-explanatory as
15 we go through it and many questions have been answered
16 by correspondence and we are very happy to have this
17 association with you. Mr. Howe and Mr. Diekman have done
18 most of the work and will probably ask the questions.

19 THE CHAIRMAN: We will direct our questions to
20 you and you can pass them along.

21 Your recommendations are contained in Paragraph
22 14 on page 7 and you suggest that the federal sales tax
23 be levied at the retail point of sale to the end user.
24 You also suggest that the federal sales tax be collected
25 along with the provincial sales tax by the provinces.
26 That, of course, assumes that we get uniform acts through-
27 out Canada. As you are aware, the provincial acts are
28 not all uniform at the present time. Do you think the
29 provinces would see this as being an advantage to them
30 and would agree?



1 MR. LOOSELEY: I believe, sir, that it would be
2 more of an advantage to them since those provinces, the
3 majority of them, do have an outlet in taxes. It would
4 be more of a problem to them if those were turned around
5 so a new body of collectors had to go in and replace
6 those existing. As far as the varying amounts are
7 concerned, in British Columbia they collect 5% tax and
8 it would be added to that. In Ontario it would be added
9 to the 3%. I don't think it would be difficult, because
10 the provinces are not the same.

11 THE CHAIRMAN: What I am really reaching for is
12 how can one keep the acts uniform? As soon as the
13 province had some reason for deviating from the standards
14 on different items would it do so? I think it would no
15 longer be able to collect the federal tax for them if it
16 did not conform to the federal Act and the federal
17 government, if it wanted the tax in that province, would
18 have to collect it by itself which would be quite
19 unreasonable, I think. What would induce the provinces to
20 stay in line?

21 MR. DIEKMAN: I most respectfully beg to dis-
22 agree. I believe if the Federal Government were to have
23 a uniform tax rate throughout the country it would not
24 matter very much whether the provinces had each their own
25 individual rates.

26 THE CHAIRMAN: I am not arguing any point in
27 respect of that. I am talking about the law.

28 MR. DIEKMAN: I thought you were talking about
29 uniformity. I believe it would be a highly desirable
30 thing, but not essential.



1 THE CHAIRMAN: I am talking about the uniformity
2 of definition, uniformity of law, not uniformity as to
3 rate. If you are going to tax a sale it must be the same
4 thing you are taxing throughout the country. It must not
5 be a different kind of article in one province than in
6 another. It is very hard to keep laws uniform as we have
7 found out in the income tax and succession duties and
8 other laws. I think the only way this could be done is if
9 it were precisely uniform. If one province steps out of
10 line I think it throws the mechanism out of whack, and
11 makes collection impossible. Am I right or not?

12 MR. DIEKMAN: I don't think you are, sir.

13 THE CHAIRMAN: Tell me why not.

14 MR. DIEKMAN: I am coming back to the point that
15 the Federal Government can decree as it wishes what
16 particular items it would and would not tax. It could
17 in my view, also arrange to have certain items exempted
18 from tax, from federal service tax. The province, in my
19 view, could still please itself as to what items it would
20 and would not tax. It might make it hard on the retailer
21 where he collects the tax on one item for the province
22 and not on the same item for the Federal Government.
23 That might be a problem, but it is a matter of collecting
24 and the province would collect for the Federal Government.
25 The province would hardly care how much it collected for
26 the Federal Government. It would be up to the Federal
27 Government to police whether the federal sales tax had
28 been correctly collected or not.

29 THE CHAIRMAN: Well, I think it would be pretty
30 difficult for the retailer to operate under two sets of



1 rules. It could not vary very far, I would not think.

2 MR. DIEKMAN: Mr. Chairman, I believe the rules
3 in any one province would be uniform. Maybe we could
4 take an example. Shall we take a pack of cigarettes?
5 Now, the Federal Government would collect "X" many cents
6 at a given rate on the selling price of a pack of
7 cigarettes, whatever the selling price might be. One
8 province might say we are not going to tax cigarettes,
9 for instance British Columbia, and therefore no British
10 Columbia retailer would collect the tax, but the retailer
11 of a package of cigarettes in Saskatchewan says "Yes, we
12 are." That pack would be uniform in Saskatchewan.
13 Whether Saskatchewan or British Columbia did it one way
14 or the other would hardly matter to the Federal Government.

15 MR. HOWE: I believe there are areas at the
16 present time where the retailer does have to discriminate
17 because he is charging on some items and not on others.
18 If you go into supermarkets there are several items they
19 do charge tax on and others they don't. I think this is
20 the same problem that will exist as is being handled now.

21 COMMISSIONER WALLS: It is much simpler to
22 decide whether it should be taxed or not, than whether it
23 should be taxed at two different rates; is it not?

24 MR. DIEKMAN: If the Federal rate were uniform
25 throughout the country, which I assume it would be, each
26 individual in a given province would have one rate. The
27 Federal rate would be determined country-wide.

28 COMMISSIONER WALLS: I was thinking in terms of
29 the fact there is one province that exempts children's
30 clothing up to a certain size and now the Federal



1 Government enter the picture and might make all children's
2 clothing taxable or no children's clothing taxable. There
3 is where you would run into difficulties unless all
4 provinces could be brought into line and the Federal
5 Government could also be brought into line.

6 MR. HOWE: It doesn't seem to be a problem to
7 me. You would know that this item carried, say, 11%
8 tax, assuming the Government would reduce the percentage,
9 and on this item only 5%, and in the case of B.C. it was
10 3%. I think it would be a simpler matter than it would
11 be to look at it on a broad market.

12 MR. HOWE: Don't you also feel the Federal
13 Government now has almost 100% tax across the board on
14 all items purchased as it is, although they are hidden
15 or a good percentage of them are hidden?

16 COMMISSIONER WALLS: No, I wouldn't say so.
17 There is about 50% of the potential tax collected in
18 sales tax now, and about 50% in exemptions at the
19 present time.

20 THE CHAIRMAN: Pretty wide exemptions. What
21 rules might vary apart from exemptions and rates of tax?
22 I suppose there would be no difficulty about defining
23 sales. It would have to be defined the same way in the
24 province as it was in the Federal Act.

25 MR. LOOSELY: There would have to be --- for
26 instance, in the Province of Ontario regular items are
27 taxable at 80% of their value. Items such as this we
28 would have to assume that the Federal Government, since
29 they are going to change the tax structure, they would
30 have to go along with the same idea, that they would have



1 to agree with the provinces on taxable items. This is
2 one item I can see where there might be some difficulty.

3 THE CHAIRMAN: Would there be any revenue loss
4 because of sales across provincial boundaries under what
5 you propose? One argument that has been put to us in
6 favour of the Federal Government collecting the tax is
7 that it would avoid any such loss. Therefore I assume
8 that if it were done by provinces there might be a loss.

9 MR. DIEKMAN: Would there be a loss of Federal
10 revenue or provincial or both?

11 THE CHAIRMAN: I would think provincial, but
12 under the scheme we talked of it might be in fact both.
13 No, I think not, because all goods would have Federal
14 taxes.

15 MR. DIEKMAN: I can see provincial loss.

16 MR. LOOSELY: There might be some loss to the
17 province, that is right.

18 COMMISSIONER WALLS: You would have the same
19 circumstances as you have with the Provincial sales taxes
20 right today.

21 MR. DIEKMAN: Yes.

22 MR. LOOSELY: Yes, but I think this is all
23 inclined to disappear with Ontario having a tax and
24 Quebec having a tax at the present time. It used to be
25 quite a problem, but I imagine that problem has diminished
26 a lot since we have tax here.

27 COMMISSIONER WALLS: First of all, one thing
28 that you deal with and we get it so much these days,
29 especially since the last budget --- "likewise, existing
30 exemptions from sales tax on capital equipment purchased



1 for the purpose of producing taxable goods for sale,
2 would have to remain to allow us to compete in foreign
3 markets". Now, there are certain other countries, you
4 know, who are very competitive in world markets, whose
5 manufactured products carry sales tax on the machinery
6 and production. What have you got to say as to the
7 reason that you feel that this is going to prejudice you
8 as far as going into foreign markets?

9 MR. HOWE: What portion of the brief are you
10 referring to?

11 COMMISSIONER WALLS: I was reading on page 10,
12 Section k.

13 MR. DIEKMAN: Perhaps it might be said that
14 this was written before the budget came down in the
15 House, and at that time we did not know what was going to
16 happen. As far as exempting capital equipment is concerned,
17 I would want to modify the language of the brief now,
18 because there is now sales tax on capital equipment.

19 THE CHAIRMAN: But your view is the same; you
20 haven't changed your opinion in regard to tax on machinery
21 and equipment?

22 MR. DIEKMAN: Well, speaking for myself, Mr.
23 Chairman, no. I agree that if this is not actually law,
24 that there is tax on capital equipment, well then, that
25 should remain. I do not think that this brief should be
26 interpreted to mean that we are or that the Association
27 is requesting the return to the exempt status of capital
28 equipment. That is not the point of this brief.

29 THE CHAIRMAN: I am not quite sure if I get the
30 point. You are not saying to us that you think there



1 should be a reversal of the law as it now stands? Is
2 that what you are implying, but I gather you do not like
3 tax on capital equipment.

4 MR. DIEKMAN: No, Mr. Chairman, I do not think
5 that is the correct interpretation. When this brief was
6 written there was no sales tax on capital equipment.

7 THE CHAIRMAN: That is right.

8 MR. DIEKMAN: We believed at the time when we
9 wrote it that this would continue. Since the writing of
10 this brief the budget was introduced and the sales tax
11 on capital equipment was introduced. I will venture to
12 say that had this brief been written after the budget had
13 been put in, this paragraph would not have been put in
14 this form.

15 COMMISSIONER WALLS: You appreciate the fact
16 that this Commission is sitting before some other budget
17 that is going to be brought down. If you are starting off
18 from scratch do you believe that equipment used in
19 production should be exempt from sales tax, or not?

20 MR. HOWE: With one clarification possibly.
21 If the sales tax is administered to the end user, I
22 believe there is nothing wrong with leaving the tax.

23 THE CHAIRMAN: Leaving tax on machinery and
24 equipment?

25 MR. HOWE: Yes.

26 COMMISSIONER WALLS: Did you give consideration
27 to any of the various other methods of sales tax? I mean
28 you have an anxiety to get it away from the manufacturer's
29 sales tax and you suggested retail sales tax. Had you
30 given any consideration to any other type of tax, wholesale



1 tax, value-added tax or turnover tax?

2 MR. HOWE: It was our feeling, sir, that any
3 other form of taxation other than at the retail level will
4 just further cloud the issue as it is clouded now in the
5 form of application of federal sales tax because of the
6 fact that it is applied at almost every level of purchase
7 today. This is what we would like to see eliminated.

8 THE CHAIRMAN: Would not a tax at the next level
9 up from the manufacturer's, namely the level at which the
10 retailer buys his goods, eliminate considerable of the
11 difficulties as they are now recognized at the manufactur-
12 ing level? For example, the need to have a very wide
13 application of discounts in order to get from one level to
14 the next level as is now the case, for most of the
15 disparity which is pointed out ~~at this time~~ ~~now exists between~~
16 imported goods and Canadian manufactured goods and it
17 seems to me it would get rid of a lot of that difficulty.
18 It has also been recommended many times that there is
19 considerable pyramiding, and I am not at all sure that that
20 is so. It is pretty hard to evaluate that. If it were
21 the case I would think moving up the tax one level would
22 get away from one level of pyramiding. There may be others
23 that I cannot remember at the moment. Those appeal to me
24 as being to some extent at least taken care of by a shift
25 to the wholesale level.

26 MR. LOOSELY: This I believe, sir, would be very
27 complicated, because, as you know, some types of industry
28 sell from the manufacturer to a distributor to a dealer
29 to a retailer to the consumer. But in another organization
30 they don't go through those levels. They may go from the



1 manufacturer directly to the consumer. If they go from
2 the manufacturer directly to the retailer and then to the
3 consumer, I think it would be rather complicated if you
4 try to take a level that did not exist in all types of
5 businesses.

6 THE CHAIRMAN: I suggest to you the level as
7 being that level at which the retailer buys his goods.
8 The price the retailer pays for his goods. It is true all
9 goods do not go through that level, but most goods do.
10 There are few that go from the manufacturer to the
11 consumer, such as one or two canning companies, and there
12 may be others, but most goods pass through retailers
13 and where the cost to the retailer is the level at which
14 the retailer buys his goods irrespective of who ~~he~~ buys
15 them from --- that doesn't matter a bit --- but that
16 level which is commonly referred to as the wholesale
17 level would seem to me to be fairly uniform.

18 MR. DIEKMAN: Yes, but once again you would
19 have great difficulty in collecting tax at that point
20 before really the sale to the ultimate consumer has been
21 made. One of the points we have brought out in the brief
22 is at the present moment sales tax is paid before the end
23 user has received the goods. These goods may have become
24 obsolete and therefore unsalable. Sales tax has been
25 paid and it cannot be recovered. It is down the drain.
26 I venture to believe that at the wholesale level you have
27 exactly the same problem.

28 THE CHAIRMAN: The retailer would get stuck
29 then.

30 MR. DIEKMAN: The retailer would get stuck then.



1 THE CHAIRMAN: He would get stuck with two
2 deficiencies you don't like; one is tax on his inventory
3 and the other is difficulty of recovering tax on obsolete
4 goods.

5 MR. DIEKMAN: I am not quite certain of my
6 facts, but I believe he can now, under the present legis-
7 lation, recover within two years. I am not too sure about
8 that, but I don't think there are very many retailers who
9 wouldn't give up hope before the end of two years. This
10 is, gentlemen, quite a problem, this question of lost tax
11 that you have paid to the Government and you are unable to
12 recover. I do not think that moving it out of the whole-
13 sale level will solve that particular problem.

14 THE CHAIRMAN: It solves it as far as the whole-
15 saler is concerned, but it does not solve it as far as the
16 retailer is concerned.

17 MR. HOWE: In the case of many member companies
18 in our Association many of them are manufacturers and the
19 retailer of our products, so that all you are doing in
20 this thing is moving it from A to B.

21 THE CHAIRMAN: There are certainly many manufac-
22 turers who sell to consumers, but there are not very many.
23 Nothing like the number of manufacturers who sell to
24 retailers as opposed to selling to wholesalers, but there
25 are some, I recognize that. Where there are, those sales
26 have to be adjusted under a wholesale tax plan.

27 COMMISSIONER WALLS: One of your criticisms of
28 the present tax is that it is a costly tax. I presume you
29 mean it is costly to the manufacturer in the books that
30 he has to set up, but actually overall it is a very



1 inexpensive tax. Perhaps the least expensive that we have
2 in Canada, and it lines up very well with the lowest
3 collection tax figure that we have from abroad.

4 MR. DIEKMAN: It may be perhaps inexpensive from
5 the Government point of view, but from the poor taxpayer
6 who has to keep books and administer it --- for example,
7 we have one person who is employed full-time to keep
8 track of all the sales tax and keep track of refunds.
9 This is just one employee who does nothing else eight
10 hours a day, five days a week.

11 THE CHAIRMAN: We must sympathize with these
12 people, but I think we would be sympathizing with 150,000
13 people or something like that, whereas on the retail
14 basis it would be three-quarters of a million or thereabouts.
15 Obviously there are many more retailers.

16 MR. HOWE: Mr. Chairman, has this Commission
17 any views on the method of Federal tax in the United
18 States? I understand that their method of tax is on the
19 retail level.

20 THE CHAIRMAN: The Committee views will be
21 expressed in due course. If you are asking if we have
22 any information, yes, we have some information. The
23 States generally impose retail sales tax as you are no
24 doubt familiar. The Federal Government imposes excise
25 tax of a different kind. It does not have a general
26 sales tax, so it is not the same thing at all.

27 MR. HOWE: Isn't their excise tax similar to
28 our Federal sales tax?

29 THE CHAIRMAN: No.

30 COMMISSIONER PERRY: Some is at the



1 manufacturer's level and others are at the retail level.
2 The federal tax is a mixture.

3 THE CHAIRMAN: It is not general. I think if
4 one goes to Europe or abroad to other countries one would
5 get assistance on these matters which is more suitable
6 to our setting than is the U.S. The Europeans have all
7 kinds of different forms of sales tax, and they are
8 changing them. They are looking at what is going on
9 elsewhere. The Australians run tax at the wholesale level
10 which seems to run pretty easily, and I do not think it
11 is very costly. In fact, it probably does not have as
12 good an incidence as the tax on the retailer. It depends
13 on what one wishes to pay for the perfection of retail
14 tax.

15 COMMISSIONER WALLS: One basic difference
16 between your presentation and some of the others that
17 we have had on this matter: You claim there is a disad-
18 vantage to the importers by sales tax. So many people
19 have appeared before us and said that the domestic
20 product is prejudiced against as a result in comparison
21 with imports. You draw to our attention the quite sound
22 fact that the importer must pay the sales tax immediately
23 on the product, and I presume you perhaps run into that
24 more in your industry, do you?

25 MR. LOOSELY: I think this must apply to any
26 quarter. If you have a large inventory, you have quite a
27 lot of money tied up in sales tax and customs duties.

28 COMMISSIONER WALLS: Is that a bad idea in order
29 to protect or to build up a Canadian industry?
30



1 MR. HOWE: I would say yes, sir. It is not the
2 most difficult thing in the world to have a couple of
3 hundred dollars in a large inventory. Perhaps this could
4 go into more inventory if you did not have to have it in
5 taxes, which would increase employment, ability to sell
6 and develop markets. There is only so much money
7 available and, as you know, it is 11%, and some of that
8 11% could be carried in inventory instead of tax.

9 MR. LOOSELY: I think we are in pyramiding in
10 this sort of thing, in establishing prices it then
11 becomes a part of costing.

12 COMMISSIONER WALLS: In your industry you have
13 a considerable portion of imports?

14 MR. HOWE: Yes, in our particular industry about
15 80%. Strangely enough, our market is something like
16 \$300,000,000.00. I notice in the latest figures about
17 \$30,000,000.00 of office equipment exported. It is my
18 estimate that possibly 20% of what we sell here is
19 manufactured here, mostly in parts. Assemblies, of
20 course, would be far greater than this.

21 THE CHAIRMAN: Do you have any evidence in your
22 industry that sales tax as it is now imposed is in fact
23 pyramiding, that merchants' profits are better because of
24 the tax than it would be if there were no tax?

25 MR. LOOSELY: Well, sir, I think it is a fore-
26 gone conclusion not only in our industry but anyone who
27 does importing; you talk about pyramiding, your Federal
28 sales tax when paid at the port of entry becomes part
29 of the cost of the product. It is a foregone conclusion
30 that anybody, not only in this industry, but across



1 Canada, a good many manufacturers or distributors
2 certainly add this as part of the cost and it is marked
3 up.

4 THE CHAIRMAN: You think their net profits are
5 that much better than they would be?

6 MR. LOOSELY: That is difficult to say.

7 MR. HOWE: There is a control on this. You
8 can only increase your price to the point where a person
9 can import a similar item. The customs duties and
10 Federal sales tax on this item added to the costs in the
11 United States, for instance. This would be the limit to
12 which you could increase your price.

13 THE CHAIRMAN: I find that statement as to
14 pyramiding extremely hard to evaluate. While I can
15 recognize the markup will be greater on the other hand
16 when I ask people if they make more money because of sales
17 tax, they all say they doubt it or don't know. Surely
18 if the markup is greater you will make more money unless
19 it comes off somewhere else.

20 MR. LOOSELY: Possibly your competition put
21 that stock in there. If you could actually mark up any
22 of your goods to get the return you wanted there would be
23 no problem. I think competition in every industry puts a
24 limit on it.

25 THE CHAIRMAN: If you don't make more money on
26 it even though you mark them up, I think it is not
27 pyramiding.

28 MR. LOOSELY: There is the possibility we might
29 be able to lower our costs to the consumers.

30 THE CHAIRMAN: Then you are saying you make more



1 money.

2 MR. LOOSELY: I say there is the possibility.

3 MR. HOWE: I believe if you were to take
4 individual companies and direct the questions directed to
5 us now, you would get a variety of answers. Some
6 companies do not pyramid, as you might say, but in any
7 event would not the consumer be better off if he could pay
8 the Federal sales tax when he buys rather than have the
9 chance of this pyramiding? This would be eliminated for
10 the consumer and we might be able to add a little more to
11 the Federal sales tax. It has to come from somewhere.
12 The consumer would save money.

13 THE CHAIRMAN: You would have the sales tax
14 disclosed to the consumer. I know some countries pass
15 laws that the sales tax shall not be disclosed.

16 MR. HOWE: I can see no reason for not doing
17 so.

18 THE CHAIRMAN: You are in favour of that?

19 MR. HOWE: Yes.

20 MR. LOOSELY: Our Association is in favour of
21 that.

22 COMMISSIONER WALLS: I wonder if you can give
23 me some light in regard to Regulation 31 of the Department
24 of National Revenue which deals with return of goods and
25 refund of tax? Have you had much experience with that?

26 MR. DIEKMAN: Is this return of imported goods?

27 COMMISSIONER WALLS: No, return of unsold goods
28 on which tax has been charged.

29 MR. DIEKMAN: I am afraid I am not familiar with
30 that.



1 THE CHAIRMAN: I think we have your points
2 already and we will continue to study them. We are
3 very concerned about the matter of sales tax and it is
4 clearly within our job to recommend on it. We have
5 heard a good deal about it. We thank you very much for
6 appearing today and putting before us such a thoughtful
7 memorandum. It has been a help to us indeed. Thank
8 you.

9 MR. LOOSELY: Thank you.

10 THE CHAIRMAN: We will stand over until 9:30
11 tomorrow morning.

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17 ---Whereupon the hearing was adjourned.

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ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT
OTTAWA

ONT.

VOLUME No.

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DATE

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1
2 ROYAL COMMISSION ON TAXATION

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4 Hearing held in the Centre Court
5 Room, Exchequer Court of Canada,
6 Supreme Court Building, Wellington
7 Street, Ottawa, on Friday, October
8 11th, 1963.

9 COMMISSION:

10 MR. KENNETH LEM. CARTER, Chairman

11 MR. J. HARVEY PERRY

12 MR. A. EMILE BEAUVAIS

13 MR. DONALD G. GRANT

14 MRS. S. M. MILNE

15 MR. CHARLES E. S. WALLS

16 LEGAL ADVISER:

17 MR. J. L. STEWART, Q.C.

18 RESEARCH DIRECTOR

19 PROF. D. G. HARTLE

20 SECRETARY:

21 MR. G. L. BENNETT
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* * * * *



Friday, October 11, 1963.

H/SS

---Upon commencing at 9:30 a.m.

THE CHAIRMAN: Mr. Secretary, it looks as if we are all ready and we can start.

THE SECRETARY: Mr. Chairman and Commissioners, this morning we have two briefs which are being presented by the Equitable Income Tax Foundation. The first brief has been prepared by Dr. Robert T. Patterson, who is economic consultant to the Equitable Income Tax Foundation. He is here to speak to his brief.

The other representatives here are the president of the Foundation, Mr. D.A. Gilbert and Mr. Hazen Hansard, Q.C., counsel to the Foundation.

The second brief concerns more tax structure matters.

I would like to enter both these briefs into the record now, before we proceed, the first as Exhibit 222 and the second as Exhibit 223.

---EXHIBIT NO. 222: Submission of the Equitable Income Tax Foundation.

---EXHIBIT NO. 223: Second submission of the Equitable Income Tax Foundation.

SUBMISSION OF
THE EQUITABLE INCOME TAX FOUNDATION

APPEARANCES:

DR. R.T. PATTERSON
MR. D.A. GILBERT
MR. HAZEN HANSARD, Q.C.



1 THE CHAIRMAN: Thank you, Mr. Secretary. Good
2 morning, Mr. Hansard, Mr. Gilbert, Dr. Patterson. Mr.
3 Hansard, will you speak first?

4 MR. HANSARD: Mr. Chairman and Commissioners,
5 I intend to say scarcely more than the Secretary has said.
6 I merely intend to say to you that we are here represent-
7 ing the Equitable Income Tax Foundation and, as the
8 Secretary has said, we have two briefs filed. If it
9 suits the convenience of the Commission, we would propose
10 to follow the practice which I think has been followed,
11 of having those who presented the brief merely give a
12 brief summary of them. If it suits you, also, I think it
13 would be logical that Dr. Patterson should speak first,
14 for two reasons, first, that his remarks would be of a
15 general economic nature and, secondly, that he has to
16 get away and plane accommodation is very limited, I am
17 told, this weekend. Therefore, I should like that you
18 should hear him first.

19 Dr. Patterson is connected with the American
20 Institute for Economic Research and he comes from Great
21 Barrington, Massachusetts. He has a summary of his brief
22 and I would ask him to present it.

23 THE CHAIRMAN: Thank you, Mr. Hansard. As you
24 say, we have received the briefs and we have all read
25 them. I would have thought you had fully covered
26 the situation. I think we did the five or six hours work
27 necessary to read them and I feel you have covered it
28 completely and given probably the entire story.

29 We are perfectly agreeable to your suggestion.
30 I also think it is a good idea that Dr. Patterson should



1 come first. I read his submission first, and I think we
2 all did so. At any rate, that is the way I have it in
3 my own mind.

4 I presume that after Dr. Patterson has got
5 through we will deal with his submission and will have
6 a chance to ask him questions before he leaves.

7 MR. HANSARD: Yes, that is exactly what we
8 visualize.

9 DR. PATTERSON: Mr. Chairman and members of the
10 Commission, before making a summarization of my memoran-
11 dum to the Commission, I should like to offer briefly an
12 outsider's impression of what is being done about taxation
13 here in Canada.

14 About a year ago when this Commission was
15 established I had no idea that I should have the honour
16 to be a participant at its hearings, but I was very
17 impressed that a thorough-going investigation of the
18 Canadian tax system was being undertaken by a Commission
19 of the highest calibre, whose independence and integrity
20 is unchallenged and whose freedom from political and
21 other narrowing influences commands everyone's respect.

22 As time has passed and the Commission's arduous
23 assignments are being fulfilled, the true magnitude of
24 its undertakings has become more apparent. It seems to
25 me that it is leaving no stone unturned in its
26 determination to recommend to the Canadian Government the
27 best tax system that the world has ever seen. If time
28 permitted, much more could be said of the splendid work
29 the Commission is doing. Suffice it to add here that its
30 example may well lead to the establishment of similar



1 commissions in other countries, and the influence of its
2 recommendations may extend far beyond Ottawa to affect
3 the deliberation of tax-writing bodies in many other
4 countries.

5 It is greatly to the Commission's credit that
6 it has welcomed statements from individuals and organiza-
7 tions from every part of the economy and from many points
8 of view. Its proceedings have obliged students of
9 taxation, as well as others who are vitally concerned
10 with that subject, to think long and carefully about the
11 many aspects of the tax system. The result will be an
12 enlarged and improved body of knowledge.

13 The Equitable Income Tax Foundation, which I
14 have the privilege of serving as a consultant, is a quite
15 new tax-study institution. It has given me a free hand
16 to write and speak as I please. I have to say that I share
17 wholeheartedly its concern with tax inequality. As you
18 know, its able President, Mr. Davide A. Gilbert, is
19 appearing before you today. The Foundation's primary
20 objective --- I quote very briefly --- is

21 "To encourage study, research and investigation
22 on the subject of taxation and its effect on
23 the economy of Canada, and, in particular, to
24 study the adverse effects of inequitable taxation
25 on the economic growth of Canada."

26 I am sorry that Dr. J. R. Petrie, the well-
27 known Canadian tax economist, who had originally been
28 retained to prepare a brief for the Equitable Income Tax
29 Foundation, was prevented from doing so by illness.
30 Knowing something of his past work, I am sure that his



1 contribution would have been most helpful to the
2 Commission.

3 I hope that the material I have prepared will
4 assist the Commission by focusing attention on a serious
5 inequity in the present tax law. If it does so, I shall
6 indeed be more than gratified.

7 The following points summarize my brief.

8 Cooperatives, although they are corporations ,
9 are to a large extent exempt from the corporation income
10 tax; and all newly established cooperatives are entirely
11 exempted from the tax for three years. Certain provisions
12 of the Canadian Income Tax Act enable cooperatives to
13 avoid a large part of the tax by permitting them, subject
14 to certain restrictions, to deduct from their income the
15 patronage dividends that they pay or allocate to their
16 members.

17 Although a reduction in the corporation income
18 tax would reduce the advantage now enjoyed by the tax-
19 favoured cooperatives, and the elimination of that tax
20 would remove the advantage, the solution of this problem
21 of tax inequality should not wait upon a major revision
22 of the tax system, if that revision is to be delayed.
23 In the meantime some other solution must be sought.

24 Cooperatives, which are entities separate and
25 distinct from their owner-patrons just as much as
26 ordinary corporations are separate and distinct from their
27 shareholders, earn the same kind of income as that earned
28 by the fully taxed business corporations. The particular
29 way in which the owner-patrons of a cooperative share in
30 that income does not change the fact that the income is



1 produced through the same processes of value creating
2 and bargaining that produce income for other businesses.
3 The owner-patrons of a cooperative provide the equity
4 capital and assume the risks of the business. Thus,
5 they are just as much investors in a profit-motivated
6 corporate business as are the shareholders in an ordinary
7 corporation.

8 The present tax privilege of cooperatives is
9 not in the public interest, because it is inequitable and
10 uneconomic.

11 It is inequitable both because it discriminates
12 between two essentially similar sources of revenue and
13 because it results in an unwarranted competitive advantage
14 for the cooperative corporations. Large tax savings
15 permit many cooperatives to expand far more rapidly
16 than they could if their tax burden were equal to that of
17 their ordinary corporate competitors. Often the co-
18 operatives can afford to pay more for such businesses
19 than the businesses are worth to their owners, because
20 when a rival business is acquired and becomes part of a
21 cooperative its earnings become to a large extent free
22 of tax.

23 The tax privilege now accorded cooperatives
24 is uneconomic because it causes a poorer allocation of
25 the nation's resources than would otherwise occur. The
26 competitive advantage resulting from that privilege is
27 conducive to some degree of monopoly power for many
28 cooperatives, and the aid to survival that the privilege
29 provides for inefficient cooperatives distorts the flow
30 of resources from their best uses. An established



1 principle in economics is that the freer that markets in
2 a given economy are from monopolistic and other
3 restraining and distorting influences, the closer that
4 economy will be to the most economical use of its capital
5 and manpower.

6 The subsidy that the tax advantage gives to
7 practically all cooperatives (except those that have no
8 earnings at all and so would not be subject to an income
9 tax) permits inefficient and uneconomically operated ones
10 to survive when otherwise they could not do so; and it
11 permits the more efficient cooperatives to expand their
12 operations beyond what would be a point of insufficient
13 return if their earnings from that expansion were fully
14 subject to tax.

15 Only when the use of capital is not distorted by
16 some obstacle such as a tax inequality can the highest
17 possible level of productivity for this country's capital
18 resources be achieved. Likewise, the effort of workers is
19 more productive when it is not induced to remain in less
20 efficient but tax-subsidized business situations. This
21 is not to say, of course, that all cooperatives are
22 inefficient businesses. Many of them are highly
23 efficient and have extremely capable management.

24 The tax savings of the cooperatives are in
25 effect a subsidy or gift to them, whether they are the most
26 prosperous or least prosperous associations. This tax
27 subsidy, while it reduces the total flow of real wealth
28 because of the diseconomies that it fosters, is paid for
29 through the heavier tax burden that falls upon the rest
30 of the economy.



1 The question why everyone else should thus
2 contribute to the cooperatives has never been satisfactorily
3 answered. The gain that accrues to the cooperatives
4 through this tax advantage has no justification, for they
5 have done nothing to entitle them to it. The gain
6 results entirely from the arbitrary provisions of the tax
7 law by which cooperatives receive special favoured tax
8 treatment.

9 Although there is no accurate way of determining
10 the amount of revenue lost annually to the government
11 because of the cooperatives' tax privilege, a reasonable
12 estimate would appear to be at least \$25 million.

13 The tax advantage that has been accorded the
14 cooperative form of business organization for many years
15 has undoubtedly greatly advanced the cooperative
16 movement. Some individuals believe that that movement
17 will result finally in a Cooperative State and a
18 Cooperative World. I seriously doubt though that this
19 is the desire of very many members of cooperatives in
20 Canada and the United States. In the Cooperative State
21 the individual would be subservient to the government in
22 every aspect of his economic life. As a consumer he
23 could buy only what the cooperative authorities thought
24 good for him. As worker and investor he would have no
25 choice but to serve the great national cooperative.
26 Other implications for individual freedom would be the
27 same as those found under any system of collectivism. I
28 believe, however, that only under extremely advantageous
29 and artificial circumstances, including grossly
30 inequitable tax favouritism, could such an economic system



1 come about.

2 How, then, can it be proper public policy in a
3 free enterprise society to favour by means of
4 discriminatory taxation, the establishment, growth and
5 expansion of cooperatives if they are not a superior form
6 of business? Of if it could be shown that they are
7 superior, what need would they have for favoured tax
8 treatment or any other special privilege rendered by
9 government? The answer to these questions seems
10 evident: without subsidy of any kind, each cooperative
11 should find its rightful place in a free economy in the
12 same way that an ordinary corporate business has to.

13 There is, and always has been, a place for
14 cooperatives in a free economy. How extensive the
15 cooperative form of business may become, and what part of
16 this country's total business will be transacted by it,
17 ought to depend solely upon the cooperatives' unsubsidized
18 ability to serve the public economically.

19 It is therefore my submission that to bring
20 about tax equality for cooperatives and their ordinary
21 corporate competitors the Income Tax Act should be amended
22 so as (1) to require cooperatives to pay the corporation
23 income tax without allowance for any deduction of
24 patronage dividends and (2) to require the taxation of
25 patronage dividends to the recipients in the same way
26 that the dividends of ordinary corporations are taxed
27 to their recipients.

28 This summarizes my brief.

29 THE CHAIRMAN: Thank you, Dr. Patterson; and
30 thank you for your kind remarks about this Commission.



1 Can anybody tell me anything about the health of Dr.
2 Petrie?

3 MR. HANSARD: The last I heard was that his
4 health was very poor. I understand that certainly a
5 month ago he was not able to open his mail. He is a sick
6 man, I believe.

7 THE CHAIRMAN: I am very sorry to hear that.
8 That is a loss to this Commission also.

9 MR. HANSARD: It is, indeed, a loss to all of us.

10 THE CHAIRMAN: Mr. Stewart has suggested to me,
11 and I think he is quite right in his suggestion, that
12 these briefs do not very clearly stay within the orbit of
13 economics on the one side and structure on the other side.
14 It is very difficult to stay in that category in an
15 examination such as this. We wonder at what time Dr.
16 Patterson requires to leave to catch his plane. It might
17 be better to put in the other summary at the same time
18 and then proceed to put the questions before you.

19 MR. HANSARD: That might be a very good idea.
20 I realize it has been difficult to separate the two
21 matters. They get intermingled. My understanding is
22 that Dr. Patterson's present plane commitment requires
23 him to leave some time around 4:00 o'clock.

24 DR. PATTERSON: Yes. However, it is a small
25 matter compared with the will of the Commission.

26 THE CHAIRMAN: It seems to me that you are on
27 all fours with me. I suspect that we are going on the
28 same plane.

29 DR. PATTERSON: I would like to help this
30 Commission as much as I possibly can.



1 MR. HANSARD: If the members of the Commission
2 wish, we shall proceed on these lines. I shall ask Mr.
3 Gilbert to give a summary of his brief, what we have
4 called the main submission, thought I do not know whether
5 that is not a misnomer.

6 MR. GILBERT: Mr. Chairman and Members of the
7 Commission I share Dr. Patterson's sentiments and
8 appreciation at the opportunity afforded us to appear here
9 before you this morning. I respectfully present the
10 following summary of our submission.

11 (1) Dr. Robert J. Patterson, who has prepared the
12 economic brief, will deal with that. He has already
13 given you a summary of it.

14 (2) The Equitable Income Tax Foundation is of
15 comparatively recent origin and its aims and objects are
16 set out in Chapter 1 of our submission. As will be
17 seen, and as indeed is implicit in the Foundation's
18 name, its principal concern is with the problem of
19 existing inequities in the Canadian tax structure, with
20 particular reference to the income tax field.

21 (3) The establishment of the Foundation has been
22 under way for the past two years and it was granted
23 Letters Patent at Ottawa, September 24, 1962, to fill a
24 gap which it was felt existed arising from the fact that
25 other foundations and associations of a general nature,
26 which normally speak on behalf of taxpayers and the
27 business community at large, as well as individuals and
28 groups representing particular segments of the community,
29 might be reluctant, by reason of their membership,
30 constitutional limitations or business interests, to deal



1 adequately and on a sufficiently broad basis with the
2 subject matter of our brief.

3 (4) It was obvious from the outset that there were
4 two principal areas of tax inequity and discrimination
5 which transcended all others and it was decided, in the
6 interests of an effective presentation, that we should
7 concentrate on these. You will, accordingly, find that
8 our submission is mainly concerned with the problem of
9 the competitive tax advantages enjoyed over their
10 ordinary business rivals under the existing law by:

11 (a) Cooperatives and those carrying
12 on their activities under the
13 cooperative guise, and

14 (b) Credit Unions (including Caisses
15 Populaires, as they are called
16 in Quebec),

17 as well as with the effect thereof on the Canadian economy.

18 (5) It has been suggested, I understand, that the
19 Equitable Income Tax Foundation is some sort of a
20 pressure group organized to fight the cooperative movement.
21 This is entirely false. It represents no particular
22 group but rather speaks on behalf of taxpayers of all
23 segments of the economy who are interested in the
24 maintenance of the competitive free enterprise system
25 to which that economy is supposed to be dedicated. Indeed,
26 as our submission makes quite clear, we are not opposed
27 to cooperatives or credit unions or caisses populaires as
28 such; our quarrel is with the particular provisions of
29 the existing law which enable the now important and
30 rapidly mushrooming segments of the business community



1 cooperatives and credit unions have become to secure
2 preferred tax treatment and to escape payment of their
3 fair share of the tax burden at the expense of taxpayers
4 generally and, in particular, of their ordinary business
5 competitors who must pay full taxes.

6 (6) In Chapter II of our submission (pp. 4-9) we
7 set out what we consider to be the three basic principles
8 of sound taxation; namely, that it must be productive,
9 impose as little hindrance as possible on the economy and
10 bear equitably on all taxpayers, due regard being had to
11 ability to pay. We then emphasize the importance of
12 income taxes as a source of revenue, pointing out that,
13 next to personal income tax which accounts for some 30
14 per cent of total revenues, corporate income tax is the
15 largest single source of revenue, accounting for some 20
16 per cent of the total. It is, of course, in this last
17 mentioned field that the inequity and discrimination to
18 which we allude exists.

19 (7) Chapter III (pp. 9-15) contains a history of
20 the evolution of cooperatives from the early simple self-
21 help days of the Rochdale pioneers down to the highly
22 integrated and commercialized organizations which we know
23 in Canada today. No particular comment is necessary
24 other than to note that, under the law as it now stands,
25 with emphasis on "payment" of so-called patronage
26 dividends as the means of avoiding income tax, the
27 incentive for cooperatives to operate on a true agency
28 basis has largely disappeared and they have reacted
29 accordingly.

30 (8) In Chapter IV (pp. 15 - 24) the history of the



1 Canadian income tax laws as they have affected cooperatives
2 from 1917 to date is given. This history falls naturally
3 into three periods, as follows:

- 4 (a) 1917-1930, during which tax
5 liability of cooperatives turned
6 on whether or not income was earned;
7 (b) 1930-1946, from the introduction
8 to the repeal of Section 4(p), under
9 which the exemption from income tax
10 was accorded to organizations
11 operated on a cooperative basis
12 if they fell within the definition
13 of the section, and
14 (c) 1946 to date, under the legislation
15 enacted in implementation of the
16 Report of the McDougall Royal
17 Commission on Taxation of Cooperatives,
18 the basic concept of which was to
19 make all cooperatives in receipt of
20 income liable to taxation but to
21 permit deduction from taxable income,
22 by both cooperative and ordinary
23 forms of business, of so-called
24 patronage dividends "paid" to
25 customers.

26 The McDougall Commission, faced with numerous
27 complaints of discrimination in favour of cooperatives,
28 as a result of the application of Section 4(p) and,
29 having concluded that cooperatives did in fact earn
30 income in respect of which they ought to be taxed in the



1 same way as ordinary businesses, sought to solve the
2 difficulty by recommending the abolition of Section 4(p)
3 and substitution of provisions for the deduction from
4 taxable income of all payments in accordance with
5 patronage, whether made by cooperatives or ordinary
6 businesses, provided such payments were made in cash or
7 its equivalent or credited in exigible form in a stated
8 short period following the year to which they related.
9 Parliament, in 1946, adopted this suggestion by enacting
10 what appears in the present Income Tax Act as Section
11 75(1). Unfortunately, however, the essential feature
12 of the scheme requiring payment in cash or its
13 equivalent (i.e. actual disbursement) was lost sight of
14 by the adoption of the purely arbitrary definitions of
15 the word "payment" which are to be found in Section
16 75 (4)(f). These notional payment definitions completely
17 negative the requirement of immediate cash payment or
18 disbursement and have enabled cooperatives, which alone
19 can take advantage of them, to declare so-called
20 patronage dividends on an indefinitely deferred basis,
21 which they claim as deductions from taxable income while
22 indefinitely retaining the funds in question for use in
23 building up their businesses to the great competitive
24 disadvantage of their ordinary tax-paying competitors.
25 Moreover, because ordinary corporate businesses do not
26 have members with whom they do business, the payments
27 were to be made to "customers". Thus, even cash
28 payments made by cooperatives to their customers (who by
29 and large were also members) were the effective equivalent
30 of a return to such members on capital invested in the



business. On the other hand, payments made by ordinary corporations to their customers (who were rarely if ever shareholders) represented no more nor less than cash rebates. This again has given rise to heavy competitive advantage in favour of cooperatives. These two features constitute the nub of the discrimination problem and are dealt with in the second half of Chapter IV (pp. 20 et seq.). Reference is also made in this chapter to the provisions of Section 73 and 62 (1) and 62(1)(k) of the Act whereby Parliament adopted the recommendations of the McDougall Commission to exempt newly formed cooperatives from payment of income tax for the first three years of their existence and to continue the total exemption of credit unions which had been in existence from the beginning and was apparently not regarded at that time as being of commercial significance. Sections 61 (1), 61 (1)(k), 73 and 75 of the Income Tax Act are reproduced for convenience as Schedule "B" to our submission.

(9) Chapters V and VI (pp. 24 - 33) classify present day cooperatives by relation to their income tax status and dispose, we believe successfully, of the usual arguments put forward by cooperators in support of the proposition that they should be accorded tax exemption or other special tax treatment. No particular comment on these chapters is required here.

(10) Chapter VII (pp. 33 - 36) is short but nonetheless important. It deals with the subject of "patronage dividends" and emphasizes two main points:

1. That payments in accordance



1 with patronage, when made by
2 a cooperative to its members,
3 are just as much a return on
4 capital invested as are ordinary
5 corporate dividends paid to
6 shareholders, and

7 2. That payments in accordance with
8 patronage made to customers,
9 which is the only avenue open to
10 ordinary joint stock companies
11 who do not have members and only
12 do subusiness with their share-
13 holders rarely and quite by
14 accident, are no more nor less
15 than price rebates.

16 (11) In Chapter VIII (pp. 36 - 38) we draw attention
17 to a difference between British and Canadian taxation
18 laws affecting cooperatives, which make comparisons
19 between the situations in the two countries substantially
20 meaningless at the present time.

21 (12) Chapter IX (pp. 38 - 41) gives concrete examples
22 of the extent of tax discrimination in favour of
23 cooperatives as against ordinary corporations under the
24 present law and is self-explanatory.

25 (13) Chapter X (pp. 41 - 77) reviews in detail the
26 extraordinary growth of cooperatives and their business
27 activities in Canada, and is supported by numerous
28 statistical tables annexed to the brief, to which the
29 attention of the Commission is respectfully directed.

30 (14) Chapter XI (pp. 77 - 86) deals with the extent



1 to which large cooperatives have been and are expanding
2 and developing integrated and widely diversified
3 commercial operations. Detailed factual information in
4 this connection is given as to two specific examples of
5 large cooperatives and their multifarious activities.

6 (15) Chapter XII (pp. 87 - 88) draws attention to
7 the serious loss of tax revenues which results from
8 the preferred treatment accorded cooperatives.

9 (16) Chapter XIII (pp. 88 - 104) deals in detail
10 with credit unions and caisses populaires and their
11 recent rapid growth and expanding activities. It again
12 is supported by further statistical tables annexed to
13 the brief. This chapter clearly demonstrates that these
14 organizations, whatever may have been their simple
15 origin, are now actively engaged in business for
16 business' sake on a very large and rapidly expanding
17 scale and that they are patently assisted in so doing by
18 the exemption from income tax which they continue to
19 enjoy to the great disadvantage of their tax-paying
20 competitors. It may be said in this connection that
21 almost all of this growth and expansion has occurred since
22 the last war and largely since the McDougall Commission
23 recommended continuance of tax exemptions for these
24 organizations, under the clear misapprehension that they
25 were, as they then doubtless appeared to be, merely of
26 a local and relatively inconsequential nature.

27 (17) Chapter XIV (pp. 104 - 108) stresses the
28 obvious fact that cooperatives, credit unions and caisses
29 populaires enjoy the same benefits as their tax-paying
30 competitors from the government activities which



1 necessitate the securing of income tax revenues, yet they
2 contribute relatively little or nothing thereto.

3 (18) Chapter XV (pp. 108 - 109) deals with the so-
4 called "pricing-out" problem. It is only necessary to
5 say here that, while pricing-out might have been
6 practical in the case of the simple early agency co-
7 operative, and indeed was the essence of the cooperative
8 idea, it cannot as a practical matter be employed in the
9 large commercial operations in which cooperatives now
10 engage.

11 (19) Chapter XVI (pp. 109 - 110) deals with the
12 income tax position of the recipients of so-called
13 patronage dividends and concedes that in appropriate cases
14 they should be afforded the same treatment as recipients
15 of ordinary corporate dividends.

16 The concluding Chapter XVII (p. 110) sets out
17 our recommendations which are as follows:

18 "1. That net profits be taxed prior
19 to deduction of patronage dividends;

20 2. That the privilege now granted
21 new cooperatives of being excused
22 from taxation during the first
23 three years of their existence
24 be abolished;

25 3. That the exemption from taxation
26 now granted credit unions and
27 caisses populaires be abolished
28 and that they be required to pay
29 tax on their net profits prior
30 to deduction of patronage



1 dividends; and

2 4. That patronage dividends of
3 non-agency cooperatives, both
4 consumer and non-consumer, be
5 accorded in the hands of
6 recipients the same treatment
7 as the dividends paid to share-
8 holders of corporations."

9 That is my summary of that brief.

10 THE CHAIRMAN: Thank you, indeed, Mr. Gilbert.
11 That seems to be a very complete submission.

12 Today we will ask our counsel, Mr. J.L. Stewart,
13 to conduct the examination. We should like to do it
14 ourselves and we think we would get through it much
15 faster by doing it ourselves, but we do not think we would
16 do quite as complete a job.

17 Mr. Stewart, will you proceed, please?

18 MR. STEWART: Thank you, Mr. Chairman.
19 Gentlemen, before getting on to the question of taxation
20 of cooperatives and credit unions, I would like to ask,
21 if I may, one or two questions about this Foundation
22 which Mr. Gilbert and all of you represent.

23 Mr. Gilbert, have you been President of this
24 Foundation since it was formed?

25 MR. GILBERT: Yes, I have.

26 MR. STEWART: It seems to me quite remarkable
27 that, in the space of roughly a year, you have
28 acquired a membership of 60,000. You indicate at the
29 bottom of page 1 and the top of page 2 of your brief that
30 these members are divided into classes. Do they all



1 contribute to the funds of the Foundation?

2 MR. GILBERT: The membership classifications
3 are of "ordinary" "sustaining" or "affiliate" member.
4 Individuals are enrolled as "personal" members. They
5 may or may not contribute. It is not mandatory. They
6 simply subscribe their support to the aims and objects
7 of the Equitable Income Tax Foundation.

8 MR. STEWART: Are you, Mr. Gilbert, still
9 associated yourself with the Retail Merchants Association
10 of Canada?

11 MR. GILBERT: Yes, I am.

12 MR. STEWART: Is there any overlapping between
13 the membership of that Association and the membership of
14 this?

15 MR. GILBERT: There would be no overlapping.
16 The Retail Merchants Association of Canada, which is
17 engaged in trade association work, has felt the impact of
18 what it considers the inequitable tax situation which
19 exists so severely that they in fact were among the
20 original founders of the Equitable Income Tax Foundation.
21 This Foundation has been organized to go into the various
22 matters of taxation, by research and investigation, and
23 to to deal with what it considers tax inequities and
24 to make representation to various governmental bodies
25 in respect of those inequities.

26 MR. STEWART: But the members of the Association
27 are not automatically members of this Foundation?

28 MR. GILBERT: The members of the Association,
29 by affiliation, are counted into the membership of the
30 Foundation, as are other affiliated members.



1 MR. STEWART: So that a substantial number of
2 this 60,000 would also be members, for example, of the
3 the Retails Merchants Association?

4 MR. GILBERT: That is right, through their
5 affiliation with the Foundation.

6 MR. STEWART: Now, if I might turn, first of
7 all, to the general question of taxation of cooperatives,
8 I would like to start, if I may, by trying to establish
9 the general background of the taxation treatment of
10 cooperatives.

11 I refer in the first instance to page 9 of the
12 Foundation's brief. You say at the end of Section II on
13 that page, that you wish to emphasize "that the Foundation
14 has no quarrel with cooperatives as such, nor does it
15 dispute their right to carry on businesses and distribute
16 their profits in any manner they choose." You indicate
17 that what you are concerned with is "to see removed the
18 tax discrimination cooperatives presently enjoy".

19 If I may turn now to Dr. Patterson's brief,
20 he makes a somewhat similar point on page 19 in paragraph
21 3.7. He indicates that there is no objection to the
22 cooperatives themselves and he says that "cooperatives
23 have just as rightful a place in the free enterprise
24 system as ordinary corporations, partnerships and
25 individual proprietorships." Indeed, you make the
26 same point in the Foundation's preliminary statement
27 here this morning.

28 I take it we are agreed that you have no
29 quarrel with cooperatives as such.

30 MR. GILBERT: We would like to emphasize that



1 point.

2 MR. STEWART: I imagine that by this time you
3 are familiar with some of the briefs which were filed
4 with this Commission last week, on behalf of various
5 cooperative organizations. I would like this morning
6 to refer on a number of occasions to a Joint Brief which
7 was filed by the Cooperative Union of Canada and Le
8 Conseil Canadien de la Cooperation. May I assume that
9 you have some knowledge of that Joint Brief?

10 MR. GILBERT: I was present at the hearings,
11 but I have not had an opportunity of studying the brief.

12 MR. STEWART: In those circumstances, I will
13 refer to the portions of the brief that I would like to
14 get your comments on.

15 What I am attempting to do at the moment is to
16 determine in a general way what it is that these
17 cooperatives do, what role they perform in our economy.
18 For convenience this morning, I will refer to that brief
19 of the Cooperative Union of Canada as the "Joint Brief".

20 On page 20 of the Joint Brief, there is a
21 paragraph, No. 40, which reads as follows:

22 "40. Cooperatives promote
23 economic efficiency by minimizing
24 costs for both producers and
25 consumers, by raising the returns
26 paid to the former and lowering
27 the price paid by the latter.
28 But cooperatives can claim to have
29 conferred other benefits on their
30 members and the communities in which



1 they operate. Members may help
2 themselves as well as the cooperative
3 by the performance of volunteer
4 unpaid work. Notable examples exist
5 of poor communities which were
6 transformed and revitalized both
7 economically and socially by the
8 introduction of cooperatives. There
9 are concepts of mutual self-help,
10 community betterment and democratic
11 involvement inherent in the cooperative
12 philosophy which distinguish it
13 from ordinary business. The
14 supplementary briefs ---"

15 and I interject to make the point that these were briefs
16 filed at the same time by other cooperative associations---

17 "The supplementary briefs will
18 provide illustrations of this
19 aspect of the cooperative activity.
20 In response to a questionnaire sent
21 by the CUC to a representative
22 number of Canadian cooperatives,
23 many replies indicated this to be
24 a most important result of
25 cooperative activities. Typical
26 was the answer of one cooperation ---"

27 and then there is a quotation ---

28 "'Before the cooperative was
29 organized the community was a
30 depressed area. Today people look



1 forward with courage, knowing
2 that together they can solve
3 any problem.'".

4 Before I ask you to comment on that, and at
5 the risk of going on at undue length, I should like to
6 point out that there are two places in your brief, that
7 is, the Foundation brief, where you refer to the
8 encouragement which has been given by government to
9 cooperatives. One reference is at page 52. At the
10 bottom of that page you suggest that the tax benefits
11 which were granted to cooperatives in the early stages
12 of income tax "really represented more of a gesture of
13 moral encouragement on the part of government rather
14 than the creation of an economic advantage."

15 At the top of page 14, you say that "the
16 federal government and a number of the governments of
17 the provinces give encouragement to the establishment
18 and operation of cooperatives, in some instances setting
19 up special departments of cooperation (as in Saskatchewan)."

20 The Joint Brief touched upon a somewhat
21 similar point. On page 15, in paragraph 23, they say:

22 "23. For many years public
23 policy in Canada has recognized
24 the value of cooperative activity.
25 This recognition has been reflected
26 in various types of encouragement
27 offered by both federal and
28 provincial governments for cooperative
29 development. Special government
30 agencies have been established to



1 assist this development, and
2 assistance of different kinds has
3 been given to cooperatives
4 especially in their initial years.
5 The aim has not been to support
6 the growth of cooperatives as
7 such, but rather to help people
8 -- mainly farmers and fishermen --
9 to raise their incomes and improve
10 their standards of living, to
11 encourage self-help and voluntary
12 action in order to improve economic
13 conditions."

14 I realize that to give you four quotations in
15 a row perhaps makes comment a little difficult. Basically,
16 the suggestion in those quotations seems to be that this
17 is a form of organization which is socially desirable
18 and which deserves and has in fact received the support
19 of governments in this country.

20 I wonder if you would care to comment on that.

21 MR. GILBERT: I think my answer can be quite
22 brief, having regard to the length of the statements
23 you have quoted.

24 We in our organization in our submission have
25 made reference to the various forms that government
26 assistance to the cooperative movement may take. The
27 only form of assistance of this nature that we challenge
28 is the special tax concession which is granted to
29 businesses organized as cooperatives.

30 The subject of our brief -- and I believe I am



1 right in saying that the concern of the Commission -- is
2 not a discussion of the virtues or otherwise of the
3 cooperative form of business. It is the discussion of
4 taxation methods.

5 To return to the first reference that you made,
6 I suggest that there is little ground, if any, for
7 cooperatives to lay claim to greater efficiency in the
8 conduct of their business, just so long as they remain
9 under a tax shelter. I may comment further, and I
10 think this might be pertinent. As a result of 1952
11 amendments to the Act, Canadian Crown Corporations were
12 rendered fully taxable at corporate rates. Generally
13 speaking, the Crown Corporations that are taxable are
14 those that are in what might be called the business
15 area. They include Trans-Canada Airlines, Polymer
16 Corporation Limited, Eldorado Mining and Refining (1954)
17 Limited, etc. Presumably one could make a case for not
18 taxing Crown Corporations on the grounds that their
19 income belongs to the people anyway so why bother taxing
20 it.

21 One of the major reasons for requiring Crown
22 Corporations to pay income tax was presumably to allow
23 an accurate assessment of their operations relative
24 to other business operations. If Crown Corporations were
25 not taxed to the same extent as other businesses in
26 similar lines of endeavour, it would be virtually
27 impossible to determine their relative success or lack
28 thereof. Given the imposition of tax on the earnings
29 of Crown Corporations, it is possible to determine their
30 relative success or lack thereof. Given the imposition



1 of tax on the earnings of Crown Corporations, it is
2 possible to determine the extent of public contribution
3 to them if they are not profitable in all years and
4 thereby to assess effectively the cost of the application
5 of public policy through their operations. If the Crown
6 Corporations were not taxed, it is wholly probable that
7 a major public subsidy to them could occur without full
8 knowledge and thereby hide the cost of public subsidy.
9 If sound public policy demands that the government
10 undertake to subsidize some activity the cost of this
11 subsidy should be known.

12 Should it be necessary, as a matter of public
13 policy, to subsidize cooperatives in order to have that
14 form of business ownership, then public policy would
15 provide the necessary subsidy to ensure their existence.
16 If the subsidy is hidden in an income tax advantage
17 such as is now enjoyed by cooperatives there is virtually
18 no method of determining the cost to society of the
19 subsidy. Nor is there any method of determining the
20 relative efficiency -- that is the point I am making --
21 of the cooperative form of doing business, just so long
22 as a tax shelter remains.

23 If the tax regulations regarding deduction of
24 patronage refunds are not changed, it follows that public
25 policy not only requires that cooperative business
26 activity be subsidized but also that this subsidy be
27 obscured in such a way as to make any precise
28 determination of its amount impossible.

29 MR. STEWART: Then, does it come down to this,
30 leaving aside Crown Corporations and dealing solely with



1 cooperatives, that your submission is that, to the extent
2 that cooperatives or anyone else are carrying on business
3 activity for gain, they should be taxed according to the
4 ordinary rules and that this Commission, or any
5 government which is considering this particular problem
6 should, if it is of the opinion that this particular
7 type of business organization is socially desirable or
8 that it does to some extent perform a useful social
9 function, this type of organization should be treated
10 in a special way, not through tax concessions but through
11 some other form of subsidy or relief. Is that what you
12 are putting to us?

13 MR. GILBERT: Mr. Stewart, would you rephrase
14 that question.

15 MR. STEWART: I think I would rather have the
16 reporter read it back.

17 (The Reporter read the paragraph).

18 MR. GILBERT: Mr. Stewart, I would say that as
19 a preamble to my remarks, that this discussion to my
20 understanding is not concerned with the social aspects
21 involved. My remarks were simply to the effect that
22 cooperatives should be taxed according to the ordinary
23 rules, and until this occurs it is impossible to measure
24 the degree of their efficiency or inefficiency under
25 the present tax law.

26 MR. STEWART: Are you suggesting that when you
27 are formulating tax policy you do not take social
28 considerations into account?

29 MR. GILBERT: I am not suggesting that to the
30 Commission.



1 MR. HANSARD: Are you going on to something
2 else now? Dr. Patterson would like to contribute to that
3 discussion.

4 MR. STEWART: I hope he will. I am just asking
5 these questions and when I ask them, I assume that any
6 one of you three gentlemen will reply as you see fit.

7 DR. PATTERSON: May I say, Mr. Stewart, that
8 this question you have asked is a tremendously large
9 question with fundamental implications. Although we were
10 not expecting a question of this kind, it bears on so
11 many points at issue that if I could go down the line,
12 as I will try to do quickly, and analyze the question
13 and make some comments, at least suggest in terms of
14 what we have submitted in the brief, the answers to those
15 assertions of the cooperatives, I would like to do that.

16 MR. STEWART: Please do.

17 DR. PATTERSON: If I may start at this point,
18 it seems to me that there are probably four parts to
19 your question, at least for purposes of responding to
20 it quickly, in this way. The first part involves three
21 things that were mentioned, first the cooperatives
22 claim that they particularly promote efficiency. I
23 suppose you mean business efficiency, and they claim
24 that they minimize costs, presumably to their members;
25 and that they lower prices, presumably to their members.
26 That all can be taken as one whole thing by itself, in
27 terms of more efficient business operation, which has
28 those effects. Lower costs mean lower prices, in fact,
29 whether they are cooperatives or ordinary business
30 corporations.



1 There is a temptation to set up limits and
2 say that lower costs and prices are due to tax savings.
3 The cooperatives have present tax savings. I merely
4 suggest now, and I hope to return to it, as it is an
5 important question, following those assertions, how is
6 it that a cooperative organization can be more efficient
7 than, let us say, a comparable ordinary corporation?
8 What makes it more efficient? Let us bear in mind that
9 any business organization uses four factors of production,
10 in varying proportions -- land, labour, capital and
11 management -- and that the application of this is done
12 through the greater or lesser skill of the management.

13 Management has a very important bearing on the
14 efficiency of operation, although it is not the only
15 influence that leads to relative success or failure of
16 an operation. There are market circumstances and
17 other things which may do so also. However,
18 management is always there in the picture, taking the
19 best opportunities that it can to maximize the earnings
20 of the business entity, whether it is a cooperative or
21 an ordinary corporation or a partnership or an individual
22 proprietorship.

23 This endeavour to make the very best use of
24 the capital and labour and other factors that are there
25 and that represent costs, is a continual challenge.
26 How is it that a cooperative can use these any more
27 effectively or better than individual businesses, which
28 are usually struggling either to progress or to save
29 themselves from regression or even bankruptcy? They
30 are brought in in that way just as much as the



1 cooperatives are.

2 Therefore, this question of efficiency seems
3 to suggest an almost magical property in the fact of
4 cooperative organization. It is to be challenged, it
5 seems to me, that that semimystical thing, in addition
6 to the four factors of production used by management,
7 existed.

8 Granted that this cooperative membership tends
9 to be loyal, the degree of the loyalty, of course varies
10 from one cooperative to another. In some there is
11 far more indifference in loyalty, while in others there
12 is a great deal. Just how far that loyalty would go,
13 if the cooperative were sufficiently inefficient to
14 lead to higher prices, higher net costs to its member
15 patrons, just where that loyalty would break down must
16 vary with the individual and his devotion to the
17 cooperative concept.

18 I suggest that for most cooperative members,
19 there would be a limit to it.

20 Granted this enthusiasm on the part of some
21 members of cooperatives, and noting, too, that voluntary
22 services are sometimes contributed free to cooperatives,
23 I should think, especially in the case of small
24 cooperatives in small localities, that takes on the
25 nature of a social participation. The cooperative
26 gets the services of an individual, probably part time,
27 for nothing. It is in a way a gift to it. In a
28 certain way, you could call it a subsidy. It is
29 certainly not an objectionable one; it is perhaps part
30 of the community life.



1 However, the cost is there, in this contribution
2 of the individual, in that he is willing to forego spend-
3 ing that time doing something else that would be almost
4 as satisfying to him as what he prefers to do, namely,
5 to help out the cooperative, at the counter or whatever
6 it may be. There is a hidden kind of cost in this
7 contribution, something comparable to the cost to you
8 when you contribute \$100.00 to the Salvation Army. You
9 have chosen that because that is what you want to do,
10 but you are giving up whatever else you might have done
11 with that \$100.00. In other words, the cost is there.
12 It is on a par with the contributor in that regard, but
13 it is hidden.

14 Cooperatives of course enjoy this large saving
15 in taxes, which gives them larger capital, larger
16 reserves than they would otherwise have if they were not
17 subject to the tax. This surely enters into the cost
18 of their operations also.

19 In regard to these four points I am speaking
20 on, the next three I have touched on, the voluntary
21 workers on a committee, the community transform and
22 revitalization.

23 This is another aspect of the social side of
24 cooperation and I do not question that this does occur
25 in some places at times and at some times perhaps to a
26 marked extent. However, most communities manage to
27 take care of this through their community governments,
28 through their local tax systems and through the
29 democratic process where usually it is the preference of
30 a body of voters to decide for themselves how the



1 community will be improved, rather than let some business
2 organization with a social outlook do this for them.
3 Probably in these communities that is the preference of
4 the people -- and I do not mean to criticize that in any
5 way. At the same time, we all know that parallel with
6 this, many ordinary corporations give close attention
7 to community problems and make contributions and in many
8 ways attempt to foster the well being of the communities.
9 They should have credit for that.

10 The point about mutual self help is of course
11 reflected in these two other points, of community
12 transformation and voluntary workers. But this puts a
13 cooperative, as far as social personal relationships go,
14 into a class with those things which weigh heavily in the
15 cooperative, things like fraternal organizations and
16 churches and lodges and other community groups. If these
17 are things that the cooperating members want, they should
18 have and they should take credit for such matters when
19 they are well organized and achieve pleasures and
20 satisfaction for the members. But those are incidental
21 rewards to the transaction of business by the cooperatives,
22 because what we are discussing here today is a certain
23 kind of cooperative, namely one that transacts business.
24 I will come back to that shortly again, in trying to
25 make a little clearer what we mean by the word
26 "cooperative" when we are speaking of it in connection
27 with the taxation of business entities.

28 This word "cooperative" and the words related
29 to it, such as "cooperate", "cooperating", and
30 "cooperator" -- a common noun. This applies not just



1 to a certain kind of business organization that is
2 treated in the tax laws, but to many kinds of human
3 activity that have little or nothing to do with business
4 or at least only indirectly.

5 You have organizations such as I spoke of,
6 churches and fraternal organizations, where cooperation
7 is plainly evident and is an essential part of their
8 existence.

9 You have, more often in rural areas, such things
10 as barn raising, husking bees, though they are a little
11 old fashioned now. Those things were cooperative
12 efforts. In a way, they were a cooperative
13 performance, but it is not as if the business entity
14 were set up to carry on those activities.

15 This word "cooperative" is a little troublesome
16 and it seems to me that it is partly at the root of
17 the problem in studying the taxation and tax exemption
18 of cooperatives, because it leads to confusion and it
19 tends to give credit to business organizations for
20 something more in terms of social equality than most
21 of them really have.

22 I would like to read to you here a little bit
23 on this subject of terminology, relating to the word
24 "cooperative", if I may. It will not take very long.
25 It is this:

26 "The term 'cooperative' is itself
27 ambiguous. As one student of the
28 subject has pointed out, the word
29 cooperative suffers from having
30 two meanings. In one sense it is



1 as vague as 'working together',
2 or even, in modern usage 'ready
3 to help.' In the other it is
4 the precise, in many countries
5 the legal definition of a
6 particular kind of business
7 organization. (Margaret Digby,
8 The World Cooperative Movement,
9 p.7).

10 Some writers, in discussing
11 the cooperatives, dwell upon the
12 general nature of human cooperation
13 in many areas of life, intending to
14 show the extension of a common
15 tendency to one particular form of
16 business organization. This view
17 confuses the formal, organizational
18 nature of the owner-patron cooperative
19 business association with such
20 sporadic occurrences -- partly
21 sociable in their nature -- as barn
22 raisings, logrolling, quilting parties,
23 and husking bees, as well as other
24 expressions of neighborly aid of a
25 quid pro quo sort.

26 One need hardly comment that
27 cooperation has always occurred
28 among people in most phases of their
29 living, that it is not solely economic,
30 and that where it finds formal



1 organization it is not necessarily
2 based upon an identity of ownership
3 and patronage. In our society the
4 family is the primary cooperative
5 unit, but church, lodge, school,
6 professional ssociation, and the
7 like, are also, in their ways,
8 cooperatives.

9 The term 'cooperative', although
10 convenient and expressive when applied
11 to a business organization, is used
12 arbitrarily. Few would claim that
13 cooperation can be found only in
14 those firms which are formally
15 designated as 'cooperatives'. In
16 fact, every form of business involves
17 cooperation for mutual advantage.
18 The stockholders in an ordinary
19 corporation have joined together
20 to effect the production of goods
21 and services, thereby to obtain a
22 reward for their efforts and capital.
23 The individual proprietor of a
24 business enlists the cooperation of
25 employees, suppliers, and lenders
26 in his effort to meet the wants of
27 others and gain a return for himself.

28 Employment of the term
29 'cooperative' as though it were
30 applicable only to the activities of



1 a particular kind of business
2 association is, of course, merely
3 a matter of word usage. The pre-
4 emptation of it in this way should
5 not obscure the fact that our
6 highly efficient, industrialized
7 economy has become what it is --
8 in terms of productive power and
9 wealth -- through a minute division
10 of labour, elaborate specialization,
11 and the cohering force of a
12 voluntary association of the agents
13 of production, regardless of the
14 business form."

15 MR. STEWART: Could you tell us what you were
16 reading from?

17 DR. PATTERSON: This is a book entitled
18 "The Tax Exemption of Cooperatives". I wrote it about
19 eight years ago. It was first published in 1958 and
20 this edition is 1961. The quotation is from pages
21 11 and 12.

22 MR. STEWART: Thank you.

23 DR. PATTERSON: May I enter the book?

24 THE CHAIRMAN: We would be glad to have it,
25 but I do not think we should seek it now.

26 MR. STEWART: I am sure we have it in the
27 Commission library. It is a recognized authority on
28 the subject.

29 DR. PATTERSON: I thought that comment would
30 be helpful in coming to answer this question of what we



1 are dealing with when we talk about cooperatives. The
2 point which seems to important to make is that regardless
3 of loyalties and inducements that are sometimes involved,
4 they are business organizations and they are using the
5 factors of production just as any other business, to
6 make as much as they possibly can for their own members.
7 They are separate business entities just as ordinary
8 corporations are.

9 MR. STEWART: Thank you very much.

10 It was suggested in the Joint Brief last week
11 that to a very large extent in this country, and in fact
12 much more than in most other countries, cooperative
13 activity has been connected with agriculture and to a
14 lesser extent with fishing. Would you care to comment
15 on that proposition, which I take from page 14 of the
16 Joint Brief.

17 MR. HANSARD: There is a little confusion.
18 Were you speaking of our brief?

19 MR. STEWART: I am speaking of the Joint Brief
20 that was filed last week by the Cooperative Union of
21 Canada.

22 THE CHAIRMAN: We use the term "Joint Brief".
23 I think we ought to tell you that that terms is in
24 quotation marks in my mind.

25 MR. GILBERT: I have lost the point.

26 MR. STEWART: I thought I indicated earlier
27 that I would refer to this brief, which was put in by
28 the two organizations, as the "Joint Brief". They
29 suggest, at page 14, in paragraph 22, that cooperative
30 activity in this country to a greater extent than in



1 most other countries at any rate has been connected with
2 agriculture and to a lesser extent with fishing.

3 MR. GILBERT: Mr. Stewart, cooperatives may have
4 started in this way but today they enter into virtually
5 every line of business, marketing and purchasing, what
6 we refer to as merchandising cooperatives, fishing
7 cooperatives, manufacturing and processing. They are
8 competitors in most of our distributive enterprises today
9 and also in some forms of manufacturing.

10 MR. STEWART: When you say they are competitive
11 in most forms of business activity, are they concentrated
12 in the field of the primary producers, that is, whether
13 they are marketing or consumer cooperatives do they deal
14 primarily with farmers and fishermen?

15 MR. GILBERT: They have been concentrated
16 traditionally in marketing, but I believe our brief has
17 made it very clear that their merchandising activities
18 are growing much more rapidly than the marketing activities
19 have grown at any time through their history. In post-
20 war years their merchandising activities have multiplied
21 more than seventeen times, so that while their business
22 in the past has possibly been in the marketing area, we
23 foresee that they will not only -- all things being
24 equal and tax advantages continuing -- they will not only
25 continue to operate successfully and increase their
26 volume of business in marketing of all forms but they,
27 at their present rate of growth in the merchandising
28 field foresee that merchandising may ultimately and very
29 quickly become the major type of activity, producing
30 greater volume than the marketing business.



1 MR. STEWART: Then do you suggest that if in the
2 past as they have been connected primarily with agriculture
3 and fishing, they may well grow beyond those particular
4 spheres and become active in all branches of our economic
5 population?

6 MR. GILBERT: They have grown and they will
7 continue to grow. We feel that they are going to
8 continue to grow and continue their expansion into all
9 these fields.

10 There have been statements, as you know, made
11 by cooperative spokesmen. They make forecasts -- and
12 I think very accurate forecasts.

13 I would like, if I may, to read into the
14 record some of these forecasts.

15 The first quotation is from Mr. Martin J.
16 Legere, President of Le Conseil Canadien de la
17 Co-operation addressing the Annual Meeting of the
18 Cooperative Fire and Casualty Company and Cooperative
19 Life Insurance Company, reported by the Western Producer,
20 March 14, of this year:

21 "Within 25 years Credit Unions
22 should have six million members and
23 own assets of from \$8 to \$10 billion;
24 Producer Cooperatives should double
25 their business to \$4 billion;
26 Consumer Cooperatives should boost
27 their volume to \$2 billion annually;
28 a growth from two per cent to 25 per
29 cent as the cooperatives' share of
30 the nation's total oil business."



1 In a submission of the Cooperative Union of
2 Canada to the Royal Commission on Price Spreads of
3 Food Products held in Ottawa, November 18, 1958. This
4 has been reprinted as "The Case for Cooperatives" 1959
5 and this is from page 10:

6 "Our contention is that the
7 whole system of food distribution
8 should be owned by producers and
9 consumers cooperatively. We look
10 to the day when producers and
11 consumers will meet and establish
12 prices through their cooperatives
13 and thus eliminate the middleman
14 altogether in the distributive
15 chain".

16 Mr. H.L. Fowler Present President of the
17 Interprovincial Cooperatives, reported by the Western
18 Producer, November 1, 1962, said:

19 "Cooperatives hope to acquire
20 25 to 35 per cent of 'the total
21 business of providing goods used
22 by humans' within the next twenty
23 years."

24 I believe these statements made by responsible
25 officials of the cooperative organization must be
26 recognized as a great determination not only to maintain
27 but to increase rapidly their share of business volume
28 in all of the fields in which they are operating.

29 MR. STEWART: I will come back, Mr. Gilbert,
30 to this question of growth. In the Joint Brief filed



1 last week we were given a somewhat different impression
2 and I would like at a later stage to put these propositions
3 to you.

4 Let me ask you now for comments on the question
5 of classification of cooperatives by size. Table 3 of
6 this brief which was filed last week is a classification
7 of cooperatives in Canada according to size of membership
8 in 1961. They indicate there that there were then a
9 total of 3,321 cooperative associations in Canada, but
10 these breakdown by size related only to 2,928 of them.
11 Do I take it that you have a copy of this before you?

12 MR. GILBERT: No, we have not.

13 MR. STEWART: Let me ask you to accept this,
14 that of the 2,928 that are classified according to
15 size, approximately 60 per cent are said to have under
16 200 members; another 34 per cent are said to have
17 memberships between 200 and 1,000; and the remaining
18 6 per cent have memberships in excess of 1,000.

19 The source of the table is said to be the
20 directory of cooperative associations in Canada, issued
21 by the Economic Division of the Canada Department of
22 Agriculture.

23 Would you anticipate that as large a proportion
24 as 60 per cent would have memberships of less than
25 200?

26 MR. GILBERT: If this is reported from the
27 Economics Division of the Department of Agriculture
28 Ottawa we would not challenge the statement. In fact,
29 I think the figures that you quoted make for very
30 interesting statistics.



1 MR. STEWART: The next table in the Joint Brief,
2 Table 4, comes from the same source. It purports to
3 classify cooperatives in Canada in 1961 according to
4 dollar volume of business. Out of the 3,321 they have
5 the necessary material, I take it, with regard to 2,688.
6 Of that 2,688, if my mathematics are correct, $87\frac{1}{2}$ per cent
7 have sales of less than \$500,000.00 per annum and the
8 remaining $12\frac{1}{2}$ per cent would have sales of \$500,000.00
9 or more. Again, from what you have said about Table
10 3, I take it that you would be disposed to accept that
11 breakdown?

12 MR. GILBERT: Yes.

13 MR. STEWART: Now when we come to this question
14 of dollar volume of sales of cooperatives, I would like
15 to confirm with you, if I can, what we are dealing with.
16 In the case of the producer or marketing cooperative, I
17 take it that the dollar volume of sales relates to the
18 selling price received by the cooperative itself.

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1 MR. GILBERT: This is a question, is it?

2 MR. STEWART: Yes.

3 MR. GILBERT: Yes, we agree.

4 MR. STEWART: And in the case of a consumer
5 cooperative, when you are considering the dollar volume
6 of sales, again you take the gross proceeds to the
7 cooperative of what it is selling?

8 MR. GILBERT: Yes.

9 MR. STEWART: When we are concerned here, Mr.
10 Gilbert, or gentlemen, with the taxation position of
11 cooperatives, and have to determine what the magnitude
12 of the problem is, I take it that we are concerned
13 basically with the spread which the cooperative realizes
14 in its activities. In other words, if you take a
15 producing cooperative, you are concerned, and let us
16 assume for the moment that this producing cooperative
17 buys from its patrons and resells, we are
18 concerned essentially with the difference between its
19 cost and its sales price, and in the case of the
20 consumer cooperative again we are concerned as regards
21 this taxation problem that you have raised, with the
22 spread between its cost and its selling price? Are
23 these what we are concerned with?

24 MR. GILBERT: I believe, sir, these are some
25 of the things that we are concerned with, but there are
26 other considerations here too.

27 MR. STEWART: Excuse me, Mr. Gilbert. I am
28 quite prepared to have you mention other considerations,
29 but may I just interject this: Dollar-wise, are these
30 spreads the maximum amount that we can be concerned with?



1 MR. GILBERT: Provided that is all they do.

2 MR. STEWART: I am talking only about their
3 purchasing and reselling activities. Now, if I may just
4 go along that line for a moment before you resume, the
5 profit, if there is a profit from the operations of these
6 cooperatives, will ordinarily be less than the whole of
7 that spread?

8 MR. GILBERT: I don't quite follow your
9 assumption here when you refer to profit as being less
10 than the whole of the spread.

11 MR. STEWART: Just let me give you ---

12 MR. GILBERT: Do I understand your question or
13 your statement to say that it is less than the spread on
14 account of the operating expenses?

15 MR. STEWART: Yes.

16 MR. GILBERT: Yes.

17 MR. STEWART: So that when we are considering
18 dollar volume of sales of cooperatives, and we find $87\frac{1}{2}\%$
19 of those cooperatives have sales of less than \$500,000.00,
20 the problem that concerns you is a very small fraction
21 in each case of the \$500,000.00.

22 MR. GILBERT: The problem that concerns us is
23 the total volume of business being transacted by
24 cooperatives which is one and a half billion dollars a
25 year.

26 MR. STEWART: Let us take cooperative X which
27 has a volume of sales of \$500,000.00 a year. Let me put
28 a hypothetical case to you. This cooperative is a
29 marketing cooperative. It purchases produce from
30 its members for \$450,000.00. It sells that produce for



1 \$500,000.00 so that it has a gross spread of \$50,000.00.
2 It has expenses of, let us say arbitrarily, \$25,000.00,
3 so that it has a margin of \$25,000.00 which I take it
4 or I put it to you, is the amount that we are concerned
5 about. It is the treatment of the \$25,000.00 for tax
6 purposes on that simple example that concerns you?

7 MR. GILBERT: On the figures you have quoted,
8 Mr. Stewart, we wind up with a net margin on operations
9 of \$25,000.00.

10 MR. STEWART: Yes.

11 MR. GILBERT: This may or may not be
12 all that we are concerned with as there are other items
13 of revenue in this operation such as investment income
14 or investment earnings, and these are added customarily
15 to the net margin, arriving at the net profit figure for
16 the year.

17 MR. STEWART: Are those the other considerations
18 you were going to raise a few minutes ago and which I
19 asked you to defer?

20 MR. GILBERT: Those are only part.

21 MR. STEWART: Would you tell us what the others
22 are now?

23 MR. GILBERT: We were going to make a reserva-
24 tion on accepting some of your proposition in the event
25 that your final line of questioning took a different
26 turn. We were holding ourselves ready to point out to
27 the Commission that other processes can occur in the
28 operation of a producer cooperative such as processing
29 and handling of goods and this type of thing, and this
30 is the reservation we were holding.



1 In the final analysis I believe that your
2 question came to the conclusion that I have answered.

3 MR. STEWART: All right. Now, on that hypothe-
4 tical case that I put to you, the spread with which we
5 are concerned is 5% of the sales volume of that particular
6 cooperative?

7 MR. GILBERT: That is right, according to my
8 figures.

9 MR. STEWART: Those are my figures too. What
10 I really meant to bring out is that whether it is 5% or
11 some greater or smaller percentage, the spread with which
12 you are concerned, apart from these questions of invest-
13 ment income and so on, is going to be a comparatively
14 small fraction of the total volume of sales of the
15 cooperatives?

16 MR. GILBERT: It is not a small fraction of
17 total volume of sales. I would say this is the average
18 net profit of general trading organizations in Canada.

19 MR. STEWART: What is?

20 MR. GILBERT: The 5%.

21 MR. STEWART: Then I happen to have hit on a
22 fairly accurate percentage?

23 MR. GILBERT: Very accurate.

24 MR. STEWART: Well then, on that basis if we
25 take the total dollar volume of sales of cooperatives at
26 the present time at approximately one thousand, four
27 hundred million dollars, the spread with which you are
28 concerned would be approximately --- well, I was going
29 to say would be approximately 5% of that, but I think I
30 will withdraw that, because we have no means of knowing



1 I suppose, what the percentage is, and in addition, the
2 matter is complicated by these other considerations that
3 you mentioned.

4 MR. GILBERT: On the question that we are
5 discussing about this 5%, Mr. Patterson may interject a
6 comment here to indicate the accuracy of what you are
7 speaking of.

8 DR. PATTERSON: These are not figures I worked
9 up myself. They were done in Mr. Gilbert's office. Their
10 source is the Department of National Revenue, Taxation
11 Statistics, 1962. The latest year is 1960, and it shows
12 Canadian corporations that were reporting in their tax
13 returns had out of every dollar of gross sales or revenue
14 left as profits before taxes for 1960, 4.7%. In round
15 figures about 5%.

16 MR. STEWART: Did you mention the year?

17 DR. PATTERSON: 1960. That is the latest year
18 available in this document.

19 MR. STEWART: Would you anticipate the profits
20 from the marketing and merchandising operations that
21 these cooperatives are basically engaged in would be
22 typical of the profits of industry as a whole?

23 DR. PATTERSON: It is really hard to say, but
24 for practical purposes of discussion, I believe it is
25 useful to assume if investigation is made it would
26 probably show some variation.

27 THE CHAIRMAN: Mr. Stewart, would this be a
28 convenient time to break now? I would like to have this
29 example of yours explored more fully.

30 MR. STEWART: Yes, of course, sir.



1
2 ---Short Recess.

3
4 THE CHAIRMAN: Would you resume, Mr. Stewart.

5 MR. STEWART: Thank you, Mr. Chairman. Now,
6 gentlemen, I was dealing basically with the fact that
7 some 60% of the cooperatives in Canada appear from this
8 table to have less than 200 members and that 87½% of them
9 have sales of less than \$500,000.00 per annum.

10 Then we got onto this question of margins and
11 what proportion of sales the gross margins may be and I
12 think I might refer to a figure which Dr. Patterson gave
13 us in his introductory statement and which also appears
14 on page 65 of his brief, which is a figure of \$25,000,000.00,
15 which he suggests is a reasonable estimate of the tax
16 revenue lost in Canada/^{due}to the tax privilege accorded
17 cooperatives.

18 Now, Dr. Patterson, I realize that you stress
19 that this is not an accurate figure, but you obviously
20 consider it to be a reasonable estimate. I wonder if
21 you could tell us how you came to it?

22 DR. PATTERSON: Yes, I would be very glad to do
23 so. I would like to point out, preliminary to explaining
24 how the estimate is made, that it is just a round figure.
25 I think it is a conservative figure. I would like to add
26 that the revenue lost in this situation in which coopera-
27 tives are largely exempted from corporation income tax is
28 a very secondary consideration. It is in the picture,
29 because the Government needs the revenue and it is in the
30 picture too, because when this, or some amount approximating



1 it, does not get to the Government other taxpayers are
2 somewhat more burdened by the total tax load.

3 This revenue loss estimate of \$25,000,000.00
4 is based on assumptions that begin with the one that the
5 volume of cooperative business recently approximates
6 one and a half billion dollars.

7 In 1962, as we showed a little while ago, the
8 earnings before tax of all earning cooperatives that
9 reported income was a little less than 5%, 4.7% of their
10 gross sales. If the cooperatives had this same rate of
11 return, and I said a little while ago this was an assump-
12 tion for working purposes, and there could well be proved
13 to be some variation from it, but I don't think it very
14 great, if the cooperatives had the same rate of return
15 then their income on one and a half billion gross sales
16 would be about 70,000,000, using round figures.

17 In recent years the average rate of tax paid
18 by all reporting corporations other than cooperatives has
19 ranged around 38%. Of course, not all corporations pay
20 the top rate, which ranges up to 52% and many come in
21 between that rate and the lowest rate applicable, I
22 believe, 21%. This 38% figure is shown by the statistics
23 and thus 38% of the estimated annual earnings of
24 cooperatives would be 26 and six-tenths million dollars
25 and I would like to say plus or minus somewhat.

26 MR. STEWART: Well, I see that this is simply
27 a rough estimate. I would like to ask you a couple of
28 questions. Would you think the estimate would be altered
29 having regard to the fact that 87½% of these cooperatives
30 in Canada have gross sales of not more than \$500,000.00?



1 DR. PATTERSON: I suppose the point that the
2 cooperative associations were endeavouring to make,
3 generally speaking cooperative corporations are smaller
4 than ordinary corporate businesses. I don't have
5 specific information to show whether that is correct or
6 not. Even to the extent it is, I don't believe it makes
7 very much difference. Even if it made a substantial
8 difference lowering this revenue estimate that I have
9 made, the fact would still remain that smaller coopera-
10 tives are, generally speaking, competing with, not always
11 but often, competing with more or less comparable-sized
12 ordinary corporations and larger cooperatives tend to be
13 competing with larger ordinary corporate firms.

14 This is, of course, a generalization, but the
15 impact of tax advantage may level out to some extent at
16 these different rates of average taxation paid by the
17 corporations that are fully taxed.

18 MR. STEWART: So you think that on average the
19 tax which would be paid by cooperatives, if they were
20 taxed as other corporations, would work out at approxima-
21 tely this 38% figure?

22 DR. PATTERSON: I believe so, yes.

23 MR. STEWART: Well now, when you arrived at
24 your figure of 25,000,000, did you take into account the
25 effect that the taxation of cooperatives on the same
26 basis as other corporations would have on the taxation of
27 the individual members?

28 Let me explain exactly what I am getting at
29 there. As matters now stand, as I understand it, when a
30 particular cooperative has a particular income --- let us



1 revert, if we may, to this hypothetical case of mine where
2 you have a cooperative which had a gross spread from its
3 straight purchases and resales of marketing produce of
4 \$50,000.00, and we assume arbitrarily that it might have
5 expenses of \$25,000.00, so that it had a margin of
6 \$25,000.00, which may be very large or very high or very
7 low, I don't know. Let us assume its margin is \$25,000.
8 Let us assume, to make it simple, that the situation is
9 not complicated by considerations of investment income,
10 such as Mr. Gilbert has mentioned.

11 Well, any cooperative may be required to pay a
12 tax of 3% on its capital employed. If it follows what
13 appears to be what we are told is the normal practice
14 after paying any tax which is exigible on its capital
15 employed it will proceed to distribute the great bulk of
16 the balance of the \$25,000.00 to its members by way of
17 patronage refund. Granted only part may be paid in cash,
18 the great part of it may be paid through the issuance of
19 paper or credits of one kind or another. We are neverthe-
20 less in a position that a substantial part of the
21 patronage refund, the whole of the patronage refund is
22 going to be taxed in the hands of the individual recipients.
23 What the effective overall rate of tax will be, will
24 obviously depend on the particular case and the tax
25 positions of the individual patrons, but there will be
26 some tax and I take it that there is no adjustment in
27 your \$25,000,000.00 figure for that aspect of it?

28 DR. PATTERSON: That is correct.

29 MR. STEWART: Now, of course, if your recommen-
30 dation were adopted and these cooperatives were taxed at



1 the normal corporate rate it does not follow all patronage
2 dividends would be eliminated. Presumably what was
3 received after the payment of the corporate tax would
4 again be distributed and attract some sort of tax from
5 the patrons, but this would be materially reduced, partly
6 because of the incidence of the corporate tax and partly
7 because of the fact they would be entitled to the dividend
8 tax credit in respect of the amount that was so distributed.

9 DR. PATTERSON: That would be some of that
10 effect. Two points that should be noted in acknowledging
11 that influence on the total revenue flow in certain
12 circumstances is that, of course, as you have pointed
13 out --- no, I don't recall whether you pointed out ---
14 many of the individual members have small incomes and are
15 not even now reporting and the change that you speak of
16 would not be effective in their cases. In some cases, of
17 course, where larger patronage dividends were received
18 they would be reduced and the payment of the individuals
19 would be reduced also. I have no way of knowing what that
20 amounts to, but I believe in Canada you have a dividend
21 exclusion credit of, is it 20%, that would enter into the
22 situation too.

23 MR. STEWART: Well, that dividend tax credit
24 of 20% does not apply to the present type of patronage
25 dividend, but it would apply on the basis of your brief in
26 the event it were after tax distribution.

27 Well now, I think it also appears from either
28 your brief, Dr. Patterson, or from the Foundation's
29 brief, that the return or the revenue from the corporation
30 tax in Canada at the present time is running around one



1 billion, two hundred and fifty million dollars.

2 DR. PATTERSON: That is roughly correct. I
3 have forgotten whether the figures are for 1961 or 1962.
4 I have the impression it would be a little more than that,
5 but that is a good round figure.

6 MR. STEWART: On that basis if your figure of
7 \$25,000,000.00 is correct, we are talking here about 2%
8 of the return from the corporation tax?

9 DR. PATTERSON: As I said earlier, the amount
10 of revenue is relatively modest compared with what I
11 believe is the tremendous amount of harm that the tax
12 exemption of the cooperatives is doing to the economy
13 through the other process. That is drawing off or failing
14 to draw off what I think we both agree is a small amount
15 of money in terms of the Treasury's requirements.

16 MR. STEWART: I realize, gentlemen, in all
17 these examples that we may put to one another certain
18 assumptions have to be made and the examples must be taken
19 in the light of those assumptions. If I may go to page
20 39 of the Foundation's brief and the attempt to compare
21 there the relative amounts of tax paid by the Alberta
22 Wheat Pool and an ordinary corporation which in the year
23 in question had net income before tax equal to that of
24 the Wheat Pool net income before tax.

25 Now, in the case of the ordinary corporation
26 you show net income of \$2,426,000.00 and then income tax
27 of \$1,206,000.00. That, I take it, would leave an after-
28 tax income of \$1,220,000.00. Then you assume in the next
29 paragraph that this corporation distributes the same
30 amount of dividends as the Alberta Wheat Pool distributed



1 by way of patronage refund, namely \$2,192,000.00.

2 Now, I put it to you that unless this is a most
3 exceptional year a corporation which earns \$1,220,000.00
4 after tax is not going to be in a position or willing to
5 distribute \$2,192,000.00 by way of dividend.

6 MR. GILBERT: I have to agree with your obser-
7 vation. I would also point out the fact by comparison
8 with the same figures we are assuming the same amount of
9 dividends were distributed by the corporation as the
10 Alberta Wheat Pool. I think this shows up in a clear
11 fashion the fact it is impossible financially for privately
12 owned corporations to compete with a large cooperative
13 corporation in this manner, but for the purposes of
14 comparison and to indicate the total amount of contribu-
15 tion we have proceeded with the example on this basis.

16 MR. STEWART: And I also draw attention to the
17 fact that on page 39 you assume that in the case of the
18 patrons of the Wheat Pool the average, or I suppose the
19 effective rate of tax, is 10%; whereas you also assume in
20 the case of an ordinary corporation the average or
21 effective rate of tax is 30%.

22 MR. GILBERT: That is right.

23 MR. STEWART: These are straight assumptions,
24 and do you consider really that the spread in the income
25 tax of shareholders on the one hand and members of the
26 cooperative on the other is so great that the one class
27 would be subject to tax at 30% and the other at only 10%?

28 MR. GILBERT: We feel these examples are
29 realistic.

30 THE CHAIRMAN: Mr. Stewart, in examining this



1 myself I have marked it up considerably with the points
2 you mentioned. It would seem to me we should look at the
3 money going to the same type of shareholders. If one
4 wishes to get a different result he either puts 30% at
5 the top or 10% at the bottom. In the payment of the
6 dividend I would have thought the Company would not have
7 paid out more than \$610,000.00, which is one-half of the
8 after-tax profits in accordance with the usual pattern of
9 dividend distribution. If that were the case and it were
10 paid out to 10% shareholders, there would be no further
11 tax. If paid out to 20% shareholders, there would be no
12 further tax. But it may very well be the companies are
13 owned by wealthy people and the cooperatives are not.
14 I am not sure that is not the scheme of our taxation in
15 Canada, the wealthy pay more tax than the less wealthy
16 people and I don't know that one can fairly say that is the
17 disability of corporations against cooperatives. Do you
18 think that is fair?

19 MR. GILBERT: Mr. Chairman, I think it is a
20 matter of degree, but for the purposes of this comparison
21 and it refers to a statement put in the press at one time
22 in the month of May, that the total contribution of
23 cooperatives and their members almost equalled the total
24 contribution of joint stock companies and their share-
25 holders on the same basis. To make a comparison on the
26 same basis we felt we should compare the same net profit
27 and in the case of the cooperative the estimated amount
28 of tax paid by the cooperative corporation, the hypotheti-
29 cal case of what might be paid by its patrons as compared
30 to the ordinary corporation and then to compare the



1 contribution of the patrons on a patronage dividend
2 declared allocation, which is \$2,192,000.00. We felt we
3 had to make the same comparison in the case of the joint
4 stock company to arrive at the disparity which in fact
5 does exist.

6 THE CHAIRMAN: I think you are answering me in
7 the affirmative. It is quite fair to compare the tax
8 deduction by the 10% shareholders to the tax deduction by
9 the 30% shareholders. Putting it on that basis I under-
10 stand. Thank you.

11 MR. STEWART: Now, I wonder if I could ask Dr.
12 Patterson a question at this point which arises from page
13 57 of his brief and in particular the third paragraph
14 6.15. The last sentence of that paragraph, Dr. Patterson,
15 seems to me to be open to the interpretation that you are
16 suggesting that the tax factor is an important factor to
17 the populace generally when they are considering whether
18 a particular business enterprise should be formed as a
19 cooperative or an ordinary corporation. Now, having
20 regard to the fact, as I have indicated, that 87½% of
21 these Canadian cooperatives have what appear to me to be
22 relatively small sales, and that 60% of them appear to
23 have memberships of fewer than 200 people, do you really
24 think that in the ordinary cases the people who do form
25 cooperatives form them because of taxation considerations
26 at all?

27 DR. PATTERSON: They may not know it in the
28 cases of the smaller organizations that they are being
29 influenced by the final effects of the tax advantage, but
30 what they become aware of, I would suppose, is that between



1 the prices and the patronage dividend payments that they
2 would receive, or had received from their cooperative,
3 they often have a better net result in their purchasing
4 than they would have in dealing with an ordinary corpora-
5 tion. In other words, they may not say to themselves
6 "This is a tax advantage and therefore we should take
7 advantage of it." The result of the tax advantage shows
8 them that it is a better situation for them and leads
9 them to prefer the cooperative form of business.

10 I think it would be good if a sentence were
11 added to that paragraph. May I read the paragraph that
12 you have referred to and make a suggestion as to what
13 might be added?

14 This is Paragraph 6.15 on page 57: "Taxes
15 and future tax prospects are important considerations
16 in deciding upon the form that an enterprise will take.
17 If taxes are inordinately high and fall upon business very
18 unevenly, they influence that decision. Since the
19 earnings of cooperatives are largely free of tax at the
20 cooperative level, so great an advantage for cooperative
21 enterprise must often weigh heavily in the balance when
22 that form of organization is chosen."

23 Then I would really like to add to that a
24 sentence reading somewhat like this: "It often weighs
25 heavily in the balance when individuals who might other-
26 wise have organized private businesses to serve their
27 communities were prevented or discouraged from doing so
28 by the realization that somehow or other, whether they
29 understood the tax advantage of the cooperative or not,
30 somehow or other they better not start up this private



1 ordinary corporate business because they are going to be
2 able to compete in this, they have some particular
3 unusual special advantage. They tend to be discouraged."

4 MR. STEWART: Well now, let me come for a few
5 moments to this question of the principles which are
6 considered to be basic to cooperative enterprise. On
7 page 10 of your Foundation's brief you summarize these
8 principles, what are called the Rochdale Principles. Now,
9 for present purposes, which I take it are the determina-
10 tion of how these cooperatives should be treated for tax
11 purposes, would you think that the most important of
12 these principles are perhaps the first three?

13 MR. GILBERT: On the basis that we are discuss-
14 ing the Rochdale Principles I would agree.

15 MR. STEWART: Now, taking those first three
16 principles that these cooperatives have one vote per
17 member, that the return of capital is to be at a
18 relatively low rate, and that surplus or profits is to be
19 distributed in proportion to patronage, is it arguable
20 that the cooperative is essentially a different type of
21 business organization from the ordinary corporation.

22 MR. GILBERT: Well, Mr. Stewart, I will again
23 refer you to the same page, page 10 at the top of the
24 page, the second line: "Whilst many cooperatives still
25 refer to the Rochdale Principles as their guiding
26 philosophy, the fact is that the moment a cooperative
27 graduates, as almost all of them do, from simple coopera-
28 tion between members, to the conduct of business for
29 business' sake, they depart from these principles to
30 an ever-increasing extent."



1 It is our submission there is little if any
2 similarity in the operation of cooperatives as we know
3 them in Canada today to the guiding philosophy laid down
4 by the Rochdale Principles.

5 MR. STEWART: Let me pursue that. What in your
6 opinion is the dividing line between simple cooperation
7 which you refer to at the top of page 10 and the conduct
8 of business for business' sake?

9 DR. PATTERSON: May I answer that? In the days
10 of the Rochdale pioneers the cooperative was a very little
11 affair. I suppose everyone here has read the rather
12 appealing tale of how 24 or 28 people I think in London,
13 a poor district, --- they were weavers --- saved up
14 penny by penny for I don't know, a year or two, until they
15 had something like twenty-four pounds. With it they
16 bought sugar and oatmeal and some other basic commodities,
17 and they opened a little part of a warehouse in Toad
18 Lane, and I think they transacted their business in the
19 evenings.

20 They sold these basic commodities to their
21 members. They purchased them wholesale and sold them, and
22 the members I believe, took turns waiting on the other
23 members. It was really a consumer cooperative of the most
24 basic sort.

25 However, most cooperatives today, as we know
26 them, are quite different. They are, should I say, real
27 businesses. If they are incorporated they are separate
28 entities from the people who are their own-patron members.
29 They carry on elaborate business activities. With this
30 separate entity, enters into commitments,



1 transactions, it may go into debt; it buys and sells as a
2 corporate personality itself. Through its serving its
3 owner-members, in seeking to maximize their advantage,
4 the ordinary corporation is endeavouring to do the same
5 thing in terms of earnings for its stockholders.

6 Can I make a transmission back to the question
7 you asked a moment ago about these first three items in
8 the list? It bears on what I was just saying. I would
9 like to point out it seems to me that the first three
10 principles which we agree are more important than the
11 succeeding ones that are quite incidental and miscellaneous --
12 it might have been desirable to have put number three
13 first. I believe the question you asked is leading at
14 least to the thought of what is it that differentiates
15 these cooperative corporations from ordinary corporations.

16 Number 1 says "The cooperative was to be
17 controlled on the basis of one member having one vote,
18 regardless of the size of its contribution to the enter-
19 prise." Cooperatives put great store by this requirement,
20 because they call it democracy in operation. It is true
21 that is a cooperative requirement, but in cooperatives of
22 any size today there is a board of directors. It is
23 elected by the cooperative members, and the individual
24 cooperatives themselves are not following the old basic
25 Rochdale Principles that the members actually take part in
26 the direction and control of the enterprise, and what
27 direction or control they have in most cooperatives today
28 is indirect and roughly the same as that of shareholders
29 in ordinary corporations.

30 Then the second point, "Capital supplied, if it



1 was to receive interest, would be rewarded at predetermined
2 maximum levels and no variation would occur with the
3 success or failure of the enterprise". That generalizes
4 the situation where the dividend to be paid on the shares
5 of a cooperative is very definitely limited usually to an
6 amount like 4% or 5%, and on occasion perhaps as much as
7 7%. The idea that capital will be limited in its reward,
8 this brings up a very difficult and it seems to me subtle
9 problem of adopting return on capital. It has been often
10 said, ~~and~~ rather recently by cooperative people, that
11 return on capital is very definitely limited, but if the
12 return on all the capital of the cooperative is made, not
13 as seemed to be made, not only through this limited four
14 or five percent dividend on the shares, but also to a
15 considerable extent through the patronage dividends which
16 contain a return of earnings to the owner-patrons, then
17 the generalization that you often hear that cooperatives
18 pay very limited return on capital appears not to be
19 correct.

20 Then the other comment on these first three
21 items which we agree are the more important of the whole
22 list, is that the surplus or profit of the cooperative
23 would be distributed to the members in proportion to the
24 volume of business each member transacted with the
25 cooperative. In my opinion this is the distinguishing
26 feature of the cooperative corporation. It is becoming
27 more and more the one on which the cooperative people try
28 to justify their tax exemptions, and from reading these
29 briefs I am sure you all know the arguments that are
30 presented and debated on both sides asserting and



1 attempting to rebut whether these patronage dividends
2 represent a return of earnings and so are comparable to
3 the dividends and earnings of ordinary corporations.

4 This might be a good opportunity to point out
5 how essentially simple this apparently complex problem
6 really is, and maybe all of us concerned here are partly
7 guilty of making it complex, although really I believe it
8 is the cooperatives' defence of arguments against them
9 that they make it complex.

10 Anyway, the most essential consideration I
11 believe in this whole dispute between cooperatives and
12 ordinary corporations, the most essential thing in the
13 situation is that the cooperatives and ordinary business
14 are both corporations, the same kind of corporations;
15 they have limited liability and the other advantages that
16 incorporation brings. The only dissimilarity is in the
17 way they distribute their earnings. They both have
18 earnings, but they distribute them in a different way;
19 in one case, to shareholders in proportion to share-
20 holdings, and the other in proportion to patronage,
21 although we have to bear in mind continually that these
22 patronage dividends are distributions of earnings.

23 In other words, to clean this up, the coopera-
24 tives are incorporated businesses. They achieve earnings
25 by using the factors of production and apply them through
26 management to create wealth, and when they do successfully,
27 they have income. The same kind of income as the ordinary
28 corporations. Then because they choose to do so, and
29 certainly it is the free right in a free country of
30 people associated together to agree on how they want to



1 distribute the earnings of the property they own, they
2 prefer to distribute those corporate earnings in a way
3 that pleases them best, namely to themselves, among them-
4 selves, in proportion to the their patronage, so that
5 just seems that if the corporation tax is to be part of
6 the tax system it should apply just as much to the
7 earnings of incorporated cooperatives as to the earnings
8 of incorporated other businesses.

9 MR. STEWART: Dr. Patterson, there are two
10 points that you made during what you have just said which
11 I am going to come back to later. The first is your
12 proposition that patronage dividends are to some extent
13 a return on capital, and the other is that these coopera-
14 tive corporations are the same kind of animal as ordinary
15 corporations. I do not want to discuss those propositions
16 with you, however, immediately.

17 I would like to go back to the question of the
18 dividing line between simple cooperation on the one hand
19 and the conduct of a business for business' sake on the
20 other. I would like to ask you to try to telescope
21 things to some extent, which of these following factors
22 you regard as material in this regard. I doubt that the
23 fact of incorporation can be one, because in this
24 country at any rate this is the recognized method of
25 carrying on business in the corporate form. However, that
26 is one possibility. Unincorporated association and
27 incorporated association.

28 Another is size of membership. A third is the
29 size of the operation carried on. The fourth might be the
30 function performed by the cooperative.



1 DR. PATTERSON: Excuse me, would you list those
2 again?

3 MR. STEWART: Number one was the fact of incor-
4 poration. Number two was the number of members. Number
5 three was the size of the operation. Number four was the
6 nature of the function performed. Number five would be
7 whether the cooperative is acting essentially as an agent
8 for its members or as a principle.

9 Now, I appreciate that there may be other
10 factors which you regard as the material ones or that you
11 may consider it is a composite of two or more of these
12 that must be taken into account, but I would like to know
13 just where the dividing line is if there is one.

14 DR. PATTERSON: Yes, I will try to telescope my
15 answer, and there is a temptation when I get to these
16 points that I believe will be helping most to answer
17 questions, but in any case there is a type of cooperative
18 that would not be taxable. As I conceive it, it would be
19 a very simple operation in which the cooperative was
20 truly an agent of its members. In that case there would
21 not be any income so there would be no tax problem.
22 Whether it is incorporated or not actually.

23 The number of members, I suppose more than one.
24 The size of operation ---

25 MR. STEWART: More than one would what?

26 DR. PATTERSON: More than one. I am speaking
27 of the most utterly simple kind of cooperative that we
28 can think of as showing most clearly as an example the
29 type of cooperative that properly should not be subject to
30 tax, and it is kind of an anomalous way to put it, but it



1 would not be or it should not be because it would not
2 have earnings. If it was operated as an agency and all
3 its earnings would be for its principals, because if your
4 question includes these items, the distinguishing features
5 of the cooperative that should not be taxed, is that
6 distinguishing feature the fact of incorporation, I say
7 no.

8 The number of members, well, no, except that a
9 cooperative association would necessarily have two or
10 more members.

11 MR. STEWART: But it may have any number?

12 DR. PATTERSON: Any number, ~~yes~~, although that
13 has to be qualified by the fact that a very large number
14 increasing the number of membership tends to imply that
15 the operation is more complex than could be considered
16 acceptable under the definition of agency.

17 The size of operation, no necessary limit. The
18 nature of future performance, was it?

19 MR. STEWART: Function. The nature of the
20 function performed.

21 DR. PATTERSON: That and your fifth point might
22 be related. If it is doing business, operating as a
23 business other than in the role of agency, of course
24 that is the distinction I think we are getting towards,
25 and so to your fifth point whether the cooperative is
26 acting essentially as an agent or as principal, I would
27 certainly agree with any group of cooperators that if
28 their organization is an agent and can show to me that it
29 is, all its members, and is no more than that by the
30 definition of common law an agency --- which I would like



1 to leave to lawyers and not get out in that field ---
2 but this I think is where the distinction comes.

3 In other words, if a cooperative organization,
4 whether it is incorporated or not, gets beyond the role of
5 agent into the role of a separate entity, that, as I said,
6 has the power to make contracts, to hold inventory, stock
7 goods, purchase and sell, and go into debt, and set up
8 reserves so that it is clearly not an agency any more,
9 then if it is also a corporation, I contend it should be
10 subject to corporation income tax. If it can still be
11 some other form of business organization than a corpora-
12 tion, it should it seems to me, be taxed in the same
13 way that a similar business organization, say, a partner-
14 ship, would be subject to tax.

15 THE CHAIRMAN: Was your fourth point directed
16 at whether or not it was a producer cooperative or
17 consumer cooperative?

18 MR. STEWART: That is part of it, yes.

19 THE CHAIRMAN: I think Dr. Patterson missed it.

20 DR. PATTERSON: I didn't think of that.

21 MR. STEWART: Would you suggest that the
22 function performed, whether it is a producer co-op or
23 consumer co-op or service co-op is a material factor here?

24 DR. PATTERSON: I believe the proper way to
25 treat each cooperative is to appraise it on its own
26 merits, whether it is distinguishable as an agent of its
27 patrons or not, and every cooperative of course differs
28 somewhat in its function. Most of them, it seems to me,
29 are well above this dividing line that you are seeking to
30 define.



1 A cooperative that knows or believes or even
2 hopes that it is acting merely as an agent for its members
3 should certainly have the tax treatment and should seek to
4 get tax treatment that that role of agent provides; namely
5 no tax paying because as agent it is just a conduit for
6 the funds that flow into its principals.

7 I have not gone over the briefs, but last week
8 I understand one cooperative organization appeared before
9 this Commission and showed quite clearly, as I heard the
10 matter, that it was an agency cooperative, and this is
11 what all those who are in or near that classification
12 should do, I believe.

13 MR. STEWART: I am interested that we get it
14 identified to this extent that the question of agency is
15 to you the governing consideration. Let us suppose we
16 are dealing with the cooperative, which as you say, is
17 not an agency cooperative but it is carrying on business.
18 I want to go back to your proposition or the Foundation's
19 proposition at the top of page 10, that the cooperative
20 then departs from the Rochdale Principles. Let us take
21 the first three. What effect has the question of
22 principal or agency got on the principle number one?

23 DR. PATTERSON: Will you repeat the last
24 sentence, please?

25 MR. STEWART: What effect has the fact that it
26 may be operating as an agent or principal got on princi-
27 ple number one? I may put it to you that this does not
28 involve any departure from principle number one.

29 DR. PATTERSON: I don't really understand the
30 question.



1 MR. STEWART: Well, you have said or the
2 Foundation has said, Dr. Patterson, maybe I should put
3 this question to Mr. Gilbert, that as soon as you get
4 over the dividing line these cooperatives depart from
5 these principles which are listed.

6 Now, the first principle is that each member of
7 a cooperative has one vote. Qua member. He does not, as
8 in the case of a shareholder of a corporation, have one
9 vote per common share. What has the fact of acting as
10 principal or agent in business activities got to do with
11 that principle?

12 DR. PATTERSON: I don't see that it is relevant.

13 MR. STEWART: I don't either. That is why I
14 asked the question.

15 DR. PATTERSON: That is why I didn't understand
16 the question.

17 MR. STEWART: Let's look at principle number two
18 which relates to payment of interest on capital supply.
19 What has the carrying on of business as principal on the
20 one hand or agent on the other got to do with that
21 principle?

22 DR. PATTERSON: Nothing that I can see.

23 MR. STEWART: And by the same token when we look
24 at principle three which has to do with the distribution
25 of profits, what has the fact that business is carried on
26 as an agent or as a principal got to do with that?

27 DR. PATTERSON: I don't see that it has anything
28 to do with it. In fact the inference raised by the word
29 "profit" --- I don't mean this to be an unfair statement,
30 but the inference if there are profits, not just



distributed but often are allocated and the remainder held in reserve and used for future purposes in building up capital of a business. You can hardly say building up capital of an agent. It would be a contradiction of terms, and I do not think this has anything to do with it. The only thing is whether the activities of particular organizations meet the requirements of the common law definition of agent.

MR. STEWART: Yes.

THE CHAIRMAN: And the conclusion I assume is that if they do, it should not be taxed, because whatever it does is for the benefit of its principals?

DR. PATTERSON: Not only that. It is paradoxical -- that is certainly correct --- and that is probably an ethical point, but it cannot be taxed actually because it doesn't have earnings. The agent just does not achieve it. He is a conduit of it, of course.

MR. STEWART: Is it not the case, Dr. Patterson, that what is concerning you and your associates here today is that notwithstanding that some of these cooperatives may carry on business as principals, they still adhere to principle number three?

DR. PATTERSON: Yes, and I think has a right to do it. I do not think there is anything wrong with it, except it is used as a means, as an excuse or rationalization for having this tax advantage.

MR. STEWART: I would like to discuss with you the distinction between members of a cooperative and patrons of a cooperative. I would like to put about three propositions to you, one by one, and ask you if you



1 would accept them.

2 ~~First~~ First of all, the patrons of a cooperative may
3 include people who are not members?

4 DR. PATTERSON: Yes.

5 MR. STEWART: That is correct?

6 DR. PATTERSON: Yes.

7 MR. STEWART: Secondly, that members of a
8 cooperative need not in a particular year be patrons?

9 DR. PATTERSON: That is correct.

10 MR. STEWART: And third, that the members of a
11 cooperative may have an investment in the cooperative but
12 need not in a particular year receive patronage dividends?

13 DR. PATTERSON: That is correct.

14 MR. STEWART: In other words, patronage dividends
15 are paid to the people who have been patrons in a
16 particular year, but that group of patrons in the parti-
17 cular year may not include all the members of the coopera-
18 tive?

19 DR. PATTERSON: That is correct.

20 MR. STEWART: Now, there are certain features of
21 cooperatives in Canada which I would like to discuss with
22 you. It appears to be the case, first of all, that
23 cooperatives in this country are incorporated. Would you
24 agree in the first instance that this is at least the
25 normal form of organization?

26 DR. PATTERSON: Yes.

27 MR. STEWART: There is a tendency I suggest to
28 you to equate this type of corporation with other corpora-
29 tions, but there appear to be certain differences which I
30 would like to mention for your comments.



1 They are different in their capitalization from
2 the ordinary corporation, and what I have in mind there,
3 of course, is that the initial investment of a member may
4 be quite nominal, and that to a considerable extent they
5 finance themselves, not through the issuance of shares to
6 their members as the ordinary corporation does, but through
7 deferment of payment of those patronage dividends.

8 They differ also as you have emphasized, Dr.
9 Patterson, in the way in which they distribute their
10 residual earnings. They distribute them on the basis of
11 current patronage, whereas an ordinary corporation, to
12 the extent it does distribute them, distributes them in
13 accordance with shareholdings. They also claim, of
14 course, that their members have a somewhat different
15 motivation from the members of the ordinary corporation.
16 However, having regard to those differences, what would
17 you say to the proposition that while these things are
18 both called corporations they may be corporations of two
19 distinct types?

20 DR. PATTERSON: Let me take the different points
21 of these differences and touch them briefly. The
22 difference in capitalization: It is true the ways of
23 getting capital and crediting it to the members differs
24 to a large extent from those ways of an ordinary corpora-
25 tion, but it is still capital. It is still money. It is
26 still the investment of the owner-members, and if they
27 choose to have a different kind of capital structure in
28 which there is ownership, and that is equity ownership,
29 and also debt liabilities, those are essentially the same
30 in their balance sheet as in any other, but these are not



1 significant differences.

2 The financing through the deferment of payment
3 of cash dividends to patron-members, well, that is just
4 one of many means of financing. Ordinary corporations
5 have many means of financing too, and they take those that
6 they think are better. The distribution of residual
7 earnings, well, that is a difference there. It is one
8 of choice on the part of the cooperators. The motivation
9 of members, this as we discussed before seems to be
10 irrelevant to the question of taxation. The dominating
11 motivation, in my opinion anyway, even though some of the
12 motivation is social eleemosynary, so the dominating
13 motivation of the member owners of cooperatives is that
14 of economic advantage, just as it is business-wise. So
15 I don't believe that any of these differences are
16 differences that are significant to our problem, the tax
17 problem. They are not relevant.

18 MR. STEWART: I am not really at the moment
19 concerned solely with the tax factor. I realize it is
20 the tax factor that brings us here, but if you look at
21 these two types of corporations independently of taxation
22 altogether or without regard to taxation my question, I
23 think, really comes down to this: Are they different in
24 kind, or are they simply two species of the same kind.

25 DR. PATTERSON: I say that is a very good
26 question. They are two species of the same genera. They
27 are both business corporations achieving earnings.
28 Lawyers use the term *gravamen*. This is a central issue
29 of the whole controversy, your question, and I believe
30 everything else is irrelevant.



1 MR. STEWART: I think it is a very important
2 question here. There are a couple of features of the
3 Canadian scene in this regard that I would like to refer
4 to, because they may bear on the ultimate decision on this
5 particular point. On page 25 of the Foundation brief you
6 say at the end of Paragraph (b) "Operations of this
7 nature are distinguished by the cases from those where the
8 cooperative is under no obligation to account to its
9 members for the profits or surplus arising in its hands
10 and it is in the discretion of the cooperative management
11 to decide whether the members will share in share in such
12 profits and if so, to what extent."

13 Now, the evidence which was given to this
14 Commission last week on behalf of the cooperative was
15 that in Canada, whether this is done by statute or by
16 the bylaws or other governing documents of the particular
17 ~~cooperative~~, there is in the ordinary case adequate
18 obligation to distribute residual earnings among the
19 members. The only real discretion which the members ~~or~~
20 the management may have, and it was put to us that this
21 was ordinarily a membership decision as opposed to manage-
22 ment decision, the only discretion that remains is as to
23 what proportion of the amount available can be distributed
24 ~~in~~ cash and what can be distributed by some form of paper
25 or credit.

26 Now, what comment, if any, have you on this
27 particular feature which we are told appertains to
28 Canadian cooperatives?

29 DR. PATTERSON: This refers to the obligation?

30 MR. STEWART: The obligation to distribute



1 residual earnings by way of patronage refund.

2 MR. GILBERT: Mr. Stewart, did the submission
3 indicate to you how this obligation has come about?

4 MR. STEWART: Either by statute or by bylaws or
5 by some combination.

6 MR. GILBERT: But not by Government regulation.

7 DR. PATTERSON: I am not quite sure how your
8 question takes shape.

9 MR. STEWART: We are considering at the moment,
10 I think, the question whether these two types of organiza-
11 tions of cooperation are different in kind or not. I am
12 thinking here of something which does not directly relate
13 to taxation at all. I put to you that it seems somewhat
14 significant when you are determining what kind of animal
15 you are dealing with that this is one which must
16 distribute its residual earnings where the ordinary cor-
17 poration, of course, is not in that position at all.

18 DR. PATTERSON: It gets back, I believe, to the
19 same situation that appeared in your earlier questions.
20 There is a difference between the two species but not
21 significant for changing their tax obligation because, of
22 course, we are getting back to the old idea that has come
23 up before here. They are both corporations. They both
24 achieve earnings. There is in this country a corporation
25 income tax levied on corporation earnings. Business
26 corporations have earnings which are being taxed.
27 Actually it is not relevant.

28 THE CHAIRMAN: May I interrupt? The question
29 which I would like to get the answer to, and I think it
30 is the same as yours, I am not sure, but the other day we



1 were told that all cooperatives were required to distri-
2 bute all earnings. This is in contradiction to what is
3 in this paragraph here.

4 MR. HANSARD: What I think is intended to be
5 conveyed by the paragraph here, we are talking about two
6 different things --- "distributed" is an interesting
7 word when you come to talk about patronage dividends,
8 because what is being done by the cooperatives, as I
9 understand it, they pay some of their patronage dividends
10 so-called in cash and then they keep the money for the
11 rest and issue script or something of that kind which may
12 or may not provide for repayment at any given time or
13 with interest or without. The nub of the thing is, I
14 think, there is no real distribution of the funds that
15 may be retained for an indefinite period with or without
16 interest. The only instance I can think of offhand where
17 they pay interest is the United Grain Brokers. They
18 certainly provide for the repayment over a period, I
19 think of 15 years, and they pay 3% interest. Well, most
20 of them I don't believe go that far.

21 It is a fact the actual money is kept for an
22 indefinite period and that puts them to an advantage.
23 There may be an obligation to distribute it all, but the
24 distribution is not a distribution of the funds for that
25 part of it that is not paid in cash.

26 I don't know whether I am on the same point you
27 are, Mr. Stewart, or not.

28 MR. STEWART: I think your question was
29 certainly on my point, Mr. Chairman.

30 MR. HANSARD: Is my answer all right?



1 THE CHAIRMAN: Yes, it is fine as far as I am
2 concerned.

3 MR. STEWART: The paragraph says these coopera-
4 tives are under no obligation to account for profits or
5 surpluses. What Mr. Hansard has said, as I understand it,
6 is that they may account, but they account in this
7 particular way that they pay only part in cash and part
8 in paper.

9 MR. HANSARD: I think perhaps that word
10 "account" should not be read too literally.

11 THE CHAIRMAN: I think he changed the paragraph.
12 I am quite happy.

13 MR. STEWART: As I understood from the evidence
14 given last week there is in fact obligation to distribute
15 in some way. Now, the next point that I have to put to
16 you in consideration of the type of corporation we are in
17 fact dealing with here is one on which I think there may
18 be no controversy. This type of cooperative corporation
19 is entitled under its statute or its bylaws to make these
20 distributions of residual earnings either in cash or
21 through an adequate payment of one kind or another.
22 Perhaps this is a legal or quasi-legal question, that in
23 the basic structure of this type of corporation they are
24 legally entitled to distribute these earnings in this
25 particular way.

26 MR. HANSARD: If I may say so, I don't think we
27 are concerned with what they are entitled to do or how
28 they distribute them at all. It is whether or not they
29 are distributing them in the form of payment within the
30 statute. We find in the Section 73 and 75, and it is



1 75 we are particularly concerned with, they are entitled
2 to deduct payments made in accordance with patronage.
3 Then we go a little further along and you find the
4 definition of payment, which I have never been able to
5 understand, but it is there. It is under the definition
6 of payment. So far as income tax is concerned, I am not
7 talking about what they are entitled to do as a matter of
8 their own corporate power, but whether or not they are
9 liable for income tax. It is the development of the
10 payment so they can keep the money and still claim tax
11 deduction that gives rise to the difficulties we have.
12 That is the thing that I think is the nub of the whole
13 problem. They are deducting these things as though they
14 had been paid when in point of fact the funds are still
15 retained.

16 MR. STEWART: Well, in your briefs you make it
17 quite plain, Mr. Hansard, that you think that the
18 definition of payment has been stretched a very long way
19 in the legislation or in the application of the legisla-
20 tion.

21 MR. HANSARD: I think "distorted" might be a
22 better word than "stretched". That gives rise to much of
23 the difficulty, in my submission, and whether they have
24 the power to do these things by agreement or anything
25 else, acts of incorporation or anything else, the point is
26 have they the right to deduct for income tax purposes or
27 should they be left with the right to deduct for income tax
28 purposes money that is not disbursed or should they be
29 entitled to deduct on the patronage dividends paid or not?

30 THE CHAIRMAN: Mr. Stewart, while I don't wish



1 to suggest that you lawyers have not completely looked
2 into the law we were informed that there was a case in
3 England, Staffordshire Eggs, whereby stock dividends
4 succeeded as a deduction in the U.K. It used to be
5 thought that only cash could be deducted. This has
6 caused the revenue some difficulties, I believe.

7 MR. HANSARD: I am not familiar with that case,
8 but I suppose it could be looked at. I never looked at
9 it. A stock dividend at least is some sort of disburse-
10 ment and not an indefinite piece of paper that says you
11 have been credited with so much which you might see some-
12 time hereafter. It is a little different and of course
13 the law in England is a little different too.

14 THE CHAIRMAN: I made this observation in
15 regard to something else which indicates that the law in
16 England is more restricted to payments of dividends in
17 cash. That has now changed, so we were told the other day
18 and of course the law is more difficult because of the
19 taxation of stock dividends.

20 MR. STEWART: Well now, I would like to come
21 to the possible implications of these characteristics of
22 Canadian cooperative corporations. On page 26 of your
23 Foundation brief you are dealing with agency cooperatives
24 and in particular with marketing cooperatives and I take
25 it from what has been already said that so far as you are
26 concerned if a cooperative is acting as an agent there is
27 no problem under the present statute. At the bottom of
28 page 25 you have been dealing with certain cases which
29 have related to the question whether a particular
30 cooperative is acting as an agent or not and then you say



1 on page 26 "in the view of the Foundation such decisions
2 may be quite justifiable in the case of a cooperative
3 which has no significant assets and does not perform any
4 work on the produce to make it more salable. However,
5 in situations where the cooperative, as well as merely
6 disposing of the products, processes or otherwise applies
7 labour or capital in connection with them, the case is
8 altered and there certainly is an element of profit in
9 respect of the labour or capital applied by the coopera-
10 tive in carrying out processing, warehousing, etcetera.

11 Does this mean so far as you are concerned if
12 a cooperative does any processing or applies any labour
13 or capital to the goods that it ceases to be an agent?

14 MR. HANSARD: If you are directing that to me,
15 Mr. Stewart, the way I understood it when I read it, that
16 is not my authorship, the way I understood it when I
17 read it is that where they passed the products along in
18 the ordinary marketing sense and incurred ordinary
19 marketing expense that is one thing, but the minute they
20 get changing this thing by processing it in some way or
21 performing a manufacturing operation in respect of it
22 there is obviously an operation involved and that is a
23 different thing.

24 MR. STEWART: If we look at page 32 of Dr.
25 Patterson's brief, there is another statement at the
26 beginning of Paragraph 4.25: "More observation, however,
27 shows that cooperatives, as we know them today, are not
28 true agents of their members. In their operations they
29 take title, ordinarily, to the products that they
30 purchase from or sell to their members."



1 Now, the evidence which was given here last
2 week is that in Canada at least as regards marketing co-
3 operations the converse may be the case, that ordinarily
4 the cooperative does not take title to the products it
5 deals with on behalf of its members. I think this must
6 apply to the marketing cooperatives.

7 Have you any comment on that, because it seems
8 to me that it is material to this whole agency question.

9 DR. PATTERSON: May I hazard a reply to that?
10 We are not attempting to say what the law of agency would
11 be. I doubt if this one point is the sole one that would
12 determine whether agency was involved. It might but not
13 necessarily. Other things may be being done by the
14 cooperative which would prove it to be a principal and
15 not an agent, even though it did not take title to the
16 grain it was handling.

17 MR. STEWART: Could I ask you this, and again it
18 may be I should direct myself to Mr. Hansard, when we
19 consider whether or not a person is acting as an agent in
20 this type of situation is it necessary to maintain the
21 agency relationship that all the profit except for the
22 agent's commission or remuneration from handling the
23 principal's goods should be accounted for to the
24 principal, or is it possible to maintain an agency
25 relationship on the basis that other people in like
26 circumstances with the principal will turn goods over to
27 the agent for disposition and that each of these several
28 principals will accept an accounting on the basis of the
29 average return which is realized from the agent's
30 disposition of the goods?



1 MR. HANSARD: What you are asking is: Must
2 there be an individual relationship between each member
3 of the cooperative and the cooperative itself or may there
4 be some sort of general agency between the cooperative
5 itself and all the members as a pool or mass. Is that
6 it?

7 MR. STEWART: That is not quite it. I think it
8 comes down to this: If you and I are members of the
9 cooperative can we each constitute the cooperative as our
10 agents? Let us suppose, to take a simple case, that we
11 each have a thousand bushels of wheat for sale --- wheat
12 is perhaps not a good example. Suppose we have a thousand
13 pounds of fish for sale. We each constitute or attempt to
14 constitute the cooperative our agent to dispose of our
15 fish and we say to the cooperative, of which in this
16 simple illustration we are the only members, we say
17 "Would you kindly dispose of our 2,000 pounds of fish and
18 we don't require you to keep our respective fish separate.
19 For this purpose we, Hansard and Stewart, will accept
20 from you one half each of the proceeds of disposition
21 after you deduct your legitimate expenses, after you
22 deduct a commission at whatever rate we agree upon."

/SS 23 MR. HANSARD: Perhaps your point would be made
24 even clearer if you specified the two lots of fish were
25 delivered at different times and sold at different times.

26 MR. STEWART: That would be a further point.

27 MR. HANSARD: That is, what you have in mind was
28 that the result of selling my fish may be different from
29 the result of selling your fish, and will we agree to
30 average it out and for each to take a half of the total



1 result? Is that it?

2 MR. STEWART: I think actually, Mr. Hansard,
3 we can perhaps more usefully consider the position if this
4 were not a cooperative you and I were dealing with but if
5 it was an ordinary fish packer or dealer.

6 THE CHAIRMAN: But the points as you mentioned?

7 MR. STEWART: Yes.

8 MR. HANSARD: I think you can vary the terms of
9 an agency's responsibility to account. I think you could
10 probably enter into a joint venture in some way on an
11 agency basis. I think that is possible.

12 MR. STEWART: Well then, I come back to the
13 proposition that when the cooperative deals with its
14 members it is not dealing with its members as such; it
15 is dealing with customers or patrons. It may or may not,
16 while dealing with its members --- it is obviously dealing
17 with its members, but when the cooperative engages in
18 its particular activities, and let us again for the
19 moment confine this to marketing cooperatives, it may or
20 may not be dealing with members; it will be dealing with
21 people who wish to enter into business transactions with
22 or through it at the particular time. These are people
23 who are prepared to deal in concert with others, with or
24 through the cooperative.

25 MR. HANSARD: Are you talking about marketing
26 cooperatives now?

27 MR. STEWART: Yes. What I am leading up to is
28 that it seems to me it may be arguable in this cooperative
29 type of activity that you have by virtue of these arrange-
30 ments between individual customers or patrons and the



1 cooperative, a sort of collective agency. What I am
2 trying to get to, Mr. Hansard, and I assure you that I
3 find this rather difficult to get to the bottom of it, but
4 what I am really getting to I think is in this particular
5 type of cooperative activity do we have to get away to
6 some extent from the type of principal and agent relation-
7 ship that you come across in the ordinary commercial
8 activity? Can there be such a type of collective agency
9 as I am now putting to you, because if this is feasible
10 or if it is tenable as a matter of law, then it affords
11 a complete rationalization of the payment and treatment
12 of these patronage refunds.

13 MR. HANSARD: I wouldn't think so.

14 MR. STEWART: Let me take the first part of it,
15 which is ---

16 MR. HANSARD: I am getting lost I am afraid,
17 Mr. Stewart. You are talking about a marketing coopera-
18 tive. I find it a little difficult to see. It may
19 happen. I don't know, but I would think that anybody that
20 brought in goods to be marketed by a cooperative would,
21 by and large, be or become a member in respect of that
22 operation. I was thinking of the case of the merchandising
23 cooperative. My own example, I have walked into a
24 grocery store, a cooperative, and purchased goods there,
25 and I am certainly not a member of the co-op. That is
26 what I was thinking of, but it does seem to me --- you
27 may be able to give me an example to the contrary ---
28 it does seem to me that on a marketing operation surely
29 the person who hires the co-op to market his produce or
30 whatever it is enters into some kind of membership



1 arrangement.

2 MR. STEWART: Whether he does or not, I suggest
3 to you that he has two capacities. He may be a member,
4 but when he enters into this marketing relationship, he
5 is doing it qua patron, not qua member.

6 MR. HANSARD: I don't get the distinction.
7 I don't understand that.

8 MR. STEWART: I think we have agreed earlier
9 this morning that there are members of cooperatives who
10 are not in any particular year patrons.

11 MR. HANSARD: That is perfectly true, and there
12 is no such thing, as I have had occasion to point out
13 before, there is no such thing as patronage dividends
14 because they found when they came to the 1946 statute
15 that it is payment in accordance with patronage, and that
16 is because they were letting everybody in on the wonderful
17 privilege of paying these payments in accordance with
18 patronage and deducting them, and it is payments to
19 customers. It is no longer payments to patrons that are
20 deductible for income tax purposes under the laws as they
21 now stand.

22 The facts of life, however, is that in the case
23 of the cooperative, by and large --- there are exceptions
24 obviously --- but by and large the cooperative is dealing
25 with patrons, with members, and on the contrary, the
26 ordinary business man is dealing with third parties, but
27 he doesn't have members, and he may occasionally transact
28 a piece of business with a shareholder, but that is purely
29 casual. I think you have to look at this thing on the
30 basis of what generally happens, not what can happen as



1 an exception.

2 MR. STEWART: What I am trying to do and I will
3 come to the question of consumer cooperatives in a minute,
4 but what I am trying to do is assess the situation as
5 regards marketing cooperatives. The question I am raising
6 with you is, ~~and~~ let us first of all take the simple case
7 of any one that does no processing at all but represents,
8 let us say, 100 members, and deals in a particular year
9 with 75 of those members as customers or patrons.

10 Now, as regards that group of 75 who are patrons
11 in the particular year, can there be as a matter of law
12 the sort of collective agency between those 75 patrons
13 and the cooperative that I am referring to?

14 THE CHAIRMAN: Mr. Stewart, if you and Mr.
15 Hansard wish to argue this point in law, you may well do
16 so ---

17 MR. HANSARD: I don't wish to.

18 THE CHAIRMAN: I would like to break for lunch.
19 Would this be a good time to break for lunch?

20 MR. STEWART: Yes.

21 --- (Noon adjournment)
22

23 THE CHAIRMAN: Mr. Stewart, I think we can
24 continue.

25 MR. STEWART: Thank you, Mr. Chairman. Mr.
26 Hansard, I will attempt to clarify the question that I
27 was putting to you before lunch. I think that earlier on
28 we had discussed the possibility that the two of us could
29 market our fish through a middle man who would be the
30



1 agent of the two of us on the basis that the profit
2 derived from the operation would be divided between us
3 equally notwithstanding that your fish and my fish might
4 not have in fact contributed equally to the profit.

5 Now, the question that I was attempting to put
6 to you before lunch was an extension of that. Is it
7 possible for the patrons of a marketing cooperative to
8 appoint the cooperative corporation as a common or collec-
9 tive agent for the marketing of their particular products?

10 MR. HANSARD: I don't think it is possible for
11 the patrons to do it. I think if you are going to appoint
12 ~~somebody~~ your agent, you are getting into a position where
13 you are a member of the cooperative.

14 MR. STEWART: Let us suppose that a particular
15 cooperative does not deal with any one but members, this
16 100 members of whom 75 deal with it in the particular
17 period with which we are concerned. Can those 75 patrons
18 appoint the cooperative as their common or collective
19 agent for the marketing of their goods?

20 MR. HANSARD: Well, I suppose they could do
21 anything, but the point of the matter is that we have 100
22 members, and they have all appointed this cooperative to
23 do something already. Is this a separate arrangement
24 they are making at a special time or what is it? I don't
25 follow why you take only 75.

26 MR. STEWART: Let us assume then we take it two
27 steps at a time. Let us assume in the course of a year
28 every member deals with the cooperative as a customer or
29 patron. Can they collectively appoint a cooperative
30 as agent for the marketing of their produce?



1 MR. HANSARD: So?

2 MR. STEWART: I say can they?

3 MR. HANSARD: Can they?

4 MR. STEWART: Yes.

5 MR. HANSARD: Well, I think they can, but if
6 they appoint them as agents in such a way that its duties
7 as agent will be to sell their produce and return to them
8 the net proceeds of the sale less its selling expenses,
9 then that return is clearly not anything in the nature of
10 a patronage dividend, and there is nothing left over to
11 be divided as a patronage dividend it seems to me. I
12 can't think of a marketing cooperative where you have
13 that situation.

14 MR. STEWART: So far as you are concerned does
15 this agency, this common agency relationship, cease to be
16 feasible if the cooperative processes the products?

17 MR. HANSARD: I think the minute the cooperative
18 gets into any business operation in respect of products,
19 that is, outside of the actual marketing of them, that
20 adds to the value of them, let us say, and then you are
21 getting into a different area. That is my view. I don't
22 know. I do not profess to be an expert on cooperative
23 activities, I may say.

24 MR. STEWART: If the cooperative in fact
25 acquires title to the produce, does that of itself prevent
26 it from being an agent in relation to what happens?

27 MR. HANSARD: Well, I would say to that where
28 the cooperative acquires title to the thing then in
29 disposing of it it is dealing for its own account rather
30 than the account of its member, isn't it?



1 MR. STEWART: That is your suggestion?

2 MR. HANSARD: Well. I am trying to find out
3 what it is you want me to answer. Surely if the coopera-
4 tive takes title to the thing, it is then engaged in
5 disposing of its own property, and isn't it then doing
6 business on its own account?

7 MR. STEWART: What I am getting at, Mr. Hansard,
8 and I do not intend to labour this; I find it difficult
9 to put this concept to you ---

10 MR. HANSARD: I know I am being obtuse but I
11 am trying not to be.

12 MR. STEWART: It may be that when we look at
13 this cooperative method of doing business, it may be that
14 the normal types of relationship which we are accustomed
15 to such as principal and agent and so on have to be
16 expanded, and that this particular relationship between/ ^{the patron}
17 and the cooperative is a relationship of a special and
18 unique kind, and that the cooperative can properly be
19 regarded in the words that I believe the proponents
20 of this type of organization use, as an extension of the
21 businesses of the individual members.

22 MR. HANSARD: Well, of course the proponents
23 as you describe them are great ones to say --- I say with
24 the greatest of respect --- are great ones for working
25 out fancy language of that kind, but the facts of the
26 matter are as I understand them, and I may be wrong, and
27 I am sure the Commission is in a position to know whether
28 I am wrong or not, but the fact of the matter is that is
29 not the way it is done, and the facts of the matter are
30 that the cooperatives that are causing us concern, the



1 so-called cooperatives, are people who are engaged in
2 business; engaged in business qua cooperative, and are
3 making income, and if they are not making income, then
4 obviously there is no use wasting time talking about them
5 here, because we are talking about the Income Tax Act,
6 and if there is no income I don't see how there can be
7 any tax.

8 If they can build themselves up in that position,
9 if they are in receipt of income, and certainly they were
10 so held to be generally speaking in the MacDougall Report,
11 to the extent that they are in receipt of income, our
12 proposition is they ought to be taxed the same as anybody
13 else, because they are earning income and the tax is on
14 income.

15 MR. STEWART: The fact of the matter also is I
16 think that under this particular form of business
17 organization the rule is that what we ordinarily term
18 "income" is available to the patrons of the particular
19 year in proportion to their patronage, and if this concept
20 that I put to you with confidence is a valid one, then
21 it seems that it does afford a justification or rationali-
22 zation of the treatment of these patronage dividends for
23 tax purposes.

24 MR. HANSARD: Well, so far as I am concerned,
25 and speaking for myself alone, I do not think the concept
26 as I understand it is a valid one. What I am saying is
27 to talk about agency, talk about agency in respect of
28 what cooperatives generally today are doing, as I under-
29 stand them to be doing, is stretching the word "agency"
30 beyond all legal concept. That is what I think.



1 We have in our brief, and perhaps we have used
2 varying language which was unfortunate, but we have in
3 our brief endeavoured to make the concession if the
4 cooperative does operate on a pure agency basis so that
5 what it does it does as the agent of the members, then if
6 there is any income arising from the transaction, that
7 income is the income of the member and not of the agent,
8 of the cooperative.

9 Now, that is as far as I am prepared to go.
10 I think you have a hard time finding any examples to fit
11 that group.

12 THE CHAIRMAN: Before you go on, Mr. Stewart,
13 there is one question. Specifically the wheat pools which
14 are a very conspicuous form of cooperative. We heard the
15 other day they had an agency contract with the members,
16 and if they are agents, whatever their income is, or
17 their gain or whatever one cares to call it, I would have
18 thought belongs to the members rather than the coopera-
19 tive.

20 MR. HANSARD: Well, one thing you must not
21 forget in connection with wheat: They are not marketing
22 their members' grain. They are storing it, but somebody
23 else is marketing it. They are performing a service for
24 the members. How can there be a marketing agency in
25 respect of that I don't see.

26 THE CHAIRMAN: I think I remember that the
27 point was made that they were agents.

28 MR. HANSARD: There has not been any real
29 wheat pooling on an agency basis since 1930, according to
30 my understanding. That is my information on it.



1 MR. STEWART: Now, Mr. Hansard, returning to the
2 discussion of relationship in your brief, as you say, you
3 analyzed this situation from the point of view of our
4 normal concepts of agency, partnership and so on. You
5 put forward arguments in support of the proposition that
6 these cooperatives after they get beyond the simplest and
7 most elementary stage at any rate do not fit into that
8 type of relationship.

9 MR. HANSARD: Yes.

10 MR. STEWART: What I am putting to you is that
11 perhaps this is an entirely different type of corporation
12 from the ordinary one, with an entirely different type of
13 relationship with its patrons, and I take it as far as
14 you are concerned this concept is ---

15 MR. HANSARD: What I am really saying is I
16 think, Mr. Stewart, the way I look at it, it is not the
17 nature of the entity that earns the income. I am looking
18 at the nature of the business that here is an entity that
19 is earning income, and it may be ~~as somewhat different~~
20 animal from ordinary corporations, notwithstanding that
21 it is competing directly with these ordinary corporations,
22 and it is earning income as a result of that competition,
23 and yet does not pay income taxes which results in
24 competitive advantage, which ~~in our~~ submission, should
25 not be.

26 Undoubtedly there are some differences between
27 the creatures that are doing these things, but they are
28 still earning income from their endeavours. That is our
29 position. I am sorry, I cannot go any further than that.

30 MR. STEWART: Thank you very much. That is



1 very clear and very helpful. Now, could I turn to page
2 34 of your brief.

3 MR. HANSARD: I think you like asking me
4 questions better than these fellows because I am poorer
5 at answering them.

6 MR. STEWART: No, I assure you that is not the
7 case. I consider that your answers are very much to the
8 point, and of course very well expressed.

9 Now, on page 34 you make this statement at the
10 beginning of the second paragraph when you are dealing
11 with the report of the McDougall Commission: "The
12 Commission's statement that the payment of patronage
13 dividends was 'not to be regarded as devices adopted by
14 the cooperatives to avoid payment of taxes' was written
15 with true patronage dividends in mind and before
16 cooperatives made such prodigal use of the 'notional'
17 payment of patronage dividends to enable them to build up
18 working capital from tax-free profits."

19 Now, do I infer from that that a true patronage
20 dividend is a cash dividend?

21 MR. HANSARD: Dividing up all the results of
22 the agency operation I suppose would be the way to put
23 it. Dividend means that to me.

24 MR. STEWART: Yes, but you regard it as a true
25 dividend if it is paid in cash?

26 MR. HANSARD: Paid in cash, I suppose to go
27 along with the McDougall Commission, I would also concede
28 or its equivalent, whatever that meant. Credit in a
29 certain form but not withheld indefinitely.

30 MR. STEWART: Looking at Dr. Patterson's brief



1 for a moment, starting at page 45, at the top of that page,
2 Dr. Patterson, you say "In the case of the marketing
3 cooperatives, payments may be made to members in cash or
4 scrip, or both." Then you go on during the next couple
5 of pages and you appear to be dealing with scrip not in
6 relation to patronage refunds, but in the case of a
7 marketing cooperative, to the initial and subsequent
8 payments which are made by cooperatives to their patrons
9 for the goods received.

10 Now, my question is can you say whether the
11 use of scrip for this purpose is common in Canada or
12 whether in Canada normally the purchase price for the
13 particular product is paid in cash?

14 DR. PATTERSON: Entirely incash?

15 MR. STEWART: Yes.

16 DR. PATTERSON: Well, my impression is that
17 scrip is paid. We can confirm that. I mean scrip and
18 cash together. I can confirm it with the people here.

19 MR. HANSARD: In payment for the products or
20 paid as patronage dividend?

21 MR. STEWART: I think it goes further than that.
22 If you look at the second sentence on page 45, it says:
23 "Typically both cash and scrip are given as the initial
24 advance to the farmer whose product is to be marketed".
25 I am not disputing this; I am just asking for information.

26 DR. PATTERSON: I may be mistaken, but this was
27 influenced by the United States situation, and it may not
28 be that way in Canada.

29 MR. STEWART: Perhaps we can leave this on this
30 basis: Your treatment of the scrip payments goes for



1 about three pages starting on page 45, and if you or Mr.
2 Gilbert could let us know by letter whether this is
3 descriptive of the Canadian system or not, it would be
4 helpful.

5 MR. HANSARD: I know one instance I was
6 consulted about another connection, in the grain business.
7 A form of document is issued which has been referred to as
8 scrip. It is redeemable and treated as cash, but the
9 distinction should be kept between that kind of scrip and
10 ~~the~~ sort of scrip that is ~~issued~~ as deferred patronage
11 dividends. This is the same that is issued as partial
12 payment for grain delivered. I think that is done in the
13 grain trade.

14 MR. STEWART: But that is immediately i
15 negotiable?

16 MR. HANSARD: Yes. As a matter of fact, I am
17 not sure if the one I had to deal with was not negotiable,
18 but was redeemable immediately.

19 MR. STEWART: Redeemable on the demand of the
20 recipient?

21 MR. HANSARD: Yes. I know that that takes place.

22 MR. STEWART: I don't want to go through these
23 pages in detail, but I wonder if scrip might not be used
24 in a different sense.

25 MR. HANSARD: I am pretty sure that kind of
26 scrip is certainly not the same thing as the scrip we have
27 been talking rather loosely about that is issued in the
28 form of certificates showing credit of patronage
29 dividends allocated.

30 MR. STEWART: In the introductory statement made



1 by the Foundation this morning, the statement was made on
2 page 6 that in effect patronage dividends are just as much
3 a return on capital as ordinary dividends. Now, I wonder
4 if you would enlarge on that, having regard to this, as I
5 think we have discussed, patronage refunds are returns
6 to patrons in relation to ~~their~~ patronage and not returns
7 to members as members.

8 DR. PATTERSON: The part that you are referring
9 to ---

10 MR. GILBERT: Page 6 of the summary.

11 MR. STEWART: Of the preliminary submission.

12 DR. PATTERSON: The patronage dividends are a
13 return on capital, but they may also include a return of
14 price if the purchasing cooperative has charged more to
15 its members than the going market price is; that patronage
16 dividend in other words may include not only the normal
17 earnings of the cooperative but its price element too, if
18 the prices charged to patrons have been high.

19 On the other hand, you may have situations in
20 which the patronage dividend is less than it would be if
21 normal price had been charged because the cooperative was
22 charging prices below the going level in the markets, and
23 there the patronage dividend would be entirely the return
24 on investment and would even be in a sense a deficiency
25 return because of the difference between what it was and
26 what it might have been. Here we have an example of what
27 is sometimes referred to as the pricing out process that
28 is available to cooperatives, and if you like, I could
29 speak on that process for a moment.

30 MR. STEWART: I don't think I need bother you to



1 do that at the moment. We may come to that, but I do not
2 think that I have made the point my question was directed
3 to especially clear. I think we are agreed that the
4 members and the patrons of a cooperative are not necessarily
5 the same in a particular year.

6 DR. PATTERSON: Yes.

7 MR. STEWART: I as a member of a cooperative
8 might have an investment in the cooperative which, over a
9 period of years, has become quite substantial. If the
10 cooperative does pay a return on what is to the credit of
11 my share account or member's account, then that as I see
12 it would be a return on capital invested. If in the
13 particular year I am not a patron of the cooperative at
14 all; I am nevertheless a member with a sum to the credit
15 of my membership account, and the cooperative pays a
16 patronage dividend or refund, and I, not having been a
17 patron in the year in question, receive nothing by way of
18 patronage refunds. Now, this statement of yours on page
19 6 seems to me to imply that.

20 DR. PATTERSON: Which brief are you referring
21 to?

22 MR. STEWART: Item 1 under Paragraph 10. It
23 seems to me to imply that all members all patrons and
24 everything a patron receives is a return on capital invest-
25 ment.

26 DR. PATTERSON: I don't believe it says just
27 that.

28 MR. STEWART: Well, it says that payments in
29 accordance with patronage are a return on capital invested.

30 DR. PATTERSON: Yes, that is all right.



1 MR. STEWART: Now, does it not follow from what
2 I have put to you that this is a return on capital
3 invested in quite a different sense?

4 DR. PATTERSON: That proves your question and
5 you want me to respond to that?

6 MR. STEWART: Yes.

7 DR. PATTERSON: If I understand you rightly,
8 you are saying that you as a member, because of former
9 patronage have invested in the cooperative this year a
10 substantial sum, and this year the payment of patronage
11 dividends for this year's business you got none at all
12 because you haven't dealt with the cooperative, and you
13 are saying how is it then that I am an investor if I am
14 not getting any return on my investment, because I can't
15 get patronage dividends. I am not entitled to them. Is
16 that your question?

17 MR. STEWART: No. My question is that this
18 statement of yours seems to be that patronage dividends
19 are a return on capital invested. It seems to me that
20 when we deal with patronage dividends we are not dealing
21 with capital invested in the ordinary sense at any rate,
22 but with a relationship under which the particular patron,
23 because of the fact that he has dealt with the cooperative,
24 is receiving a payment of particular amount. Is that
25 payment in the nature of a return on capital invested?



1 DR. PATTERSON: Subject to the qualifications
2 of my earlier answer, yes, it is a return. It embodies
3 earnings of a business process. The means available for
4 making this return, even though it is through an
5 allocation credit of some kind, has come from a business
6 activity that presumably has added to the value of
7 goods in process and it must be that.

8 MR. STEWART: Then it is a return on capital
9 invested in this sense you refer to the goods which the
10 patron has turned over to the Co-operative as capital
11 invested?

12 DR. PATTERSON: No. I refer to the residue that
13 has come about to the organization through its buying
14 and selling or selling and buying as what is left over
15 after paying of costs. It is what is called profit or
16 earnings and it is the accumulation of those earnings
17 during the year, if they do accumulate. Sometimes
18 unfortunately they don't. It is the accumulation of
19 those earnings that makes it possible to pay the
20 patronage dividends, whether they are paid with the
21 cash or whether in cash or credit, or all credit.

22 MR. STEWART: Dr. Patterson, would it be the case
23 that so far as the members' contributions of capital
24 are concerned the capital invested in the Co-operative
25 are the amounts which are to the credits of their
26 particular accounts? Would that be correct?

27 DR. PATTERSON: Yes, if I understand you correctly,
28 yes.

29 MR. STEWART: This will be part of the capital
30 employed.



1 DR. PATTERSON: I suppose the reserves would be
2 separated from that. May I ask a colleague?

3 MR. HANSARD: I think there is a misunderstanding
4 between the two of you. What you are getting at is
5 there is no return on capital in the example you gave,
6 on the capital invested by that particular co-operator
7 who did not elect to do any business for one reason or
8 another in a particular year?

9 MR. STEWART: That is part of it, yes.

10 MR. HANSARD: Our proposition is whether it is a
11 return on his invested capital. It is a return on
12 somebody's invested capital.

13 DR. PATTERSON: I was going to add that in a case
14 like that, I suppose if there are such cases they are
15 bound to happen with millions of co-operators, at least
16 a tendency for them to average out because this
17 individual is losing in a given year, because he has
18 not participated in a way that entitles him to a share
19 in the earnings. Perhaps in another year he will gain
20 a little more than he might have been entitled to on
21 another basis. This averaging-out would go on, not only
22 for him but in general, and there is nothing particularly
23 wrong about this. It is understood and expected by
24 people joining co-operatives, knowing unless they do
25 patronize in a given year they get no return. It is
26 another way of looking at it that it is included within
27 the Co-operative. I think you have to say if the
28 co-operators know this can happen it is of their own
29 choice.

30 MR. STEWART: Let me ask you another question to



1 illustrate this same point. Suppose Mr. Jones joins a
2 particular Co-operative in 1963 for the first time. Let
3 us suppose that he may become a member by paying twenty-
4 five cents, so that his capital invested in the
5 Co-operative at that point is a minimum. He is a patron
6 of that Co-operative in 1963 and at some time in 1964,
7 in relation to the operations of the Co-operative for
8 1963, he receives, let us say, fifty dollars by way of
9 patronage refund. Now do you say that is a return on
10 his twenty-five cents?

11 DR. PATTERSON: No, I don't. His quarter has
12 certainly not earned that amount of return, as we all
13 know. Someone else's capital, perhaps the gentleman in
14 your preceding example, has helped to permit this, is
15 giving this unusually large return to him under these
16 conditions this one time. It is somewhat exceptional.
17 It happens but it still does not mean the source of the
18 fifty dollars paid to this twenty-five cent member is
19 still earnings.

20 MR. STEWART: I think Mr. Hansard has probably put
21 his finger on it when it is said on page 6 that these
22 payments represent a return on capital invested. What
23 you mean is that they are feasible in part at any rate
24 only because there has been an aggregate amount of
25 capital invested in the Co-operative?

26 DR. PATTERSON: That is right.

27 MR. STEWART: Then I do come back to this that so
28 far as the individual recipient is concerned his receipts
29 are gauged by his proportion of the business done and
30 not by his proportion of the capital employed?



1 DR. PATTERSON: That is correct, but the point that
2 dominates so far as reference to income tax is concerned
3 is that the source of these payments is business earnings
4 of the corporation.

5 MR. STEWART: Now under the present provisions of
6 our Income Tax Act, as you know, we have this three
7 per cent rule, the rule relating to the three per cent
8 return on capital employed. One of the Co-operatives,
9 at any rate, has suggested to this Commission in its
10 brief that the earnings of a Co-operative properly so
11 regarded should be treated as a part return on capital
12 employed and in part a distribution by way of price
13 adjustment, or call it what you will.

14 I am not sure whether or not it was intended in
15 that brief to put to the Commission that this three per
16 cent rule was a fair rule or to leave with the Commission
17 the idea that may be some percentage limitation of this
18 sort would be appropriate.

19 As far as you people are concerned I take it that
20 no such provision would be attractive; that as far as
21 you are concerned the profits, if they are to be
22 regarded as profits, should be taxed completely and that
23 to compromise the way the present Act does is not suitable.

24 MR. HANSARD: Might I deal with that? I think your
25 statement is correct. It is my understanding the three
26 per cent rule was inserted as some sort of safeguard to
27 prevent Co-operatives or other people paying out all
28 their wealth in patronage dividends, so they put a limit.
29 My understanding is the three per cent has proved
30 ineffective as a safeguard and we don't think it is



1 useful.

2 MR. STEWART: The next thing I would like to canvas
3 with you is whether for tax purposes there is any
4 reasonable method of classifying Co-operatives. The
5 first point I would like to raise with you is whether
6 there are a number of small Co-operatives, small perhaps
7 not so much in number of members but in volume of
8 business, who might be reasonably disregarded for tax
9 purposes?

10 MR. HANSARD: Are you suggesting something along
11 the same lines that there is a basic exemption where
12 nobody has to pay tax?

13 MR. STEWART: Well, you are suggesting....

14 MR. HANSARD: My own view would be you have other
15 small businesses that are paying tax and I don't see
16 why there should be a differentiation on the basis of
17 size so far as Co-operatives are concerned. I think if
18 they are earning enough income to be subjected to income
19 tax they should pay just the same as other people.

20 MR. STEWART: Now let us suppose consideration were
21 being given to the elimination or the removal of this
22 patronage refund deduction, and again let us start with
23 the marketing Co-operatives, which are not of the agency
24 type. Is it likely that if that deduction is eliminated
25 any of the larger marketing Co-operatives of this type
26 that exist will be split up into small units so that
27 they can avoid tax, or in any event avoid tax at the
28 higher rate?

29 MR. HANSARD: This is something I have heard of in
30 another context. I can't say whether there is a danger



1 or not. I don't know whether you have anything on that,
2 Mr. Gilbert.

3 MR. GILBERT: It is a possibility but also invites
4 the observation that Co-operatives as a whole should have
5 some greater objectivity than simply avoiding tax. They
6 should pay their share in the cost of running the country.

7 MR. STEWART: Do you people in your own minds draw
8 any distinction between marketing co-operatives and
9 consumer Co-operatives, the possible ground of distinction
10 I have in mind being this: A marketing Co-operative is
11 presumably concerned with getting the produce of the
12 primary producer to market. The consumer Co-operative
13 may not be concerned with the primary producer at all.
14 Many of them, I take it, are, but the evidence before us
15 is that the consumer Co-operative is getting into the
16 urban centres and dealing with people who are not
17 primary producers in the ordinary sense.

18 So far as you are concerned is there any feasible
19 or justifiable ground of distinction between these two
20 classes?

21 MR. HANSARD: I think our colours are nailed to
22 the mast on that one. There is a greater possibility,
23 I suggest, of having what we call a true agency type of
24 Co-operative on the agency side than there is on the
25 other side. If there is that then there is no income.
26 It is up to them if they want to get themselves in that
27 position they don't have to worry about it.

28 MR. STEWART: Is it reasonable to draw a
29 distinction between the marketing Co-operative, which
30 deals directly with the primary producer, and the



1 consumer's co-operative which deals with the ultimate end
2 consumer, on the one hand putting both those types into
3 one category and on the other hand the wholesale
4 Co-operative or the Co-operative which itself is engaged
5 in a processing or manufacturing activity.

6 MR. HANSARD: It still gets back to the same
7 question of income. In my view if there is income there
8 should be taxation.

9 MR. STEWART: I would like now to come for a moment
10 to the question of pricing-out. In the summary which
11 your Foundation read this morning on page 8, in paragraph
12 18, you suggest that pricing-out might have been
13 practicable in the early days. It was the essence of the
14 Co-operative idea but that it could not as a practical
15 matter be employed in the large commercial operations
16 in which Co-operatives are now engaged. You refer in this
17 connection to pages 108, 109 of your Foundation brief.
18 I take it that the reasons for that statement are those
19 appearing in the last paragraph on page 108?

20 MR. GILBERT: Generally speaking, yes.

21 MR. STEWART: And I put to you a statement with
22 regard to pricing-out which was made by Professor McIvor
23 in his article entitled "Recent Growth in Canadian
24 Co-operatives". The portion in regard to pricing-out
25 appears at the end of the article on page 38. He has
26 previously discussed the pricing-out question to some
27 extent on page 37. He says at the end of page 38, after
28 expressing the view that the term of patronage dividends
29 is discriminatory, he says this: "It (referring to the
30 deduction) is in fact discriminatory and its removal would



1 represent neither the complete disaster to the Co-operatives
2 nor the complete solution for the private trade that
3 it is commonly held to represent." What should give the
4 private sector of the economy serious pause is that having
5 achieved the elimination of this tax discrimination they
6 might well then face the prospect of the rapidly
7 expanding Co-operative movement, having decided quite
8 legitimately to commit itself through pricing-out methods
9 legally effective under the private basis of operation.
10 In the light of its fundamental philosophy could private
11 enterprise indefinitely survive?"

12 MR. HANSARD: That is a rhetorical question, that
13 last one.

14 MR. STEWART: Should I assume from what you say on
15 pages 108 and 109 that this is a risk you are quite
16 prepared to run?

17 MR. HANSARD: If necessary. We don't think it is a
18 risk that is likely to occur. It seems to me we must all
19 remember if Co-operatives were operating on a true cost
20 basis there would in effect be pricing-out. They don't.

21 MR. GILBERT: I might say, Mr. Stewart, it is our
22 observation that the Co-operatives need the patronage
23 dividend to hold their customers and our proposals for
24 tax equity certainly do not mean the end of patronage
25 dividends. They would be issued on the same basis in
26 the event of taxation as an ordinary Company dividend
27 after taxation.

28 MR. STEWART: I admit they would but the amount would
29 necessarily be reduced by the amount of taxation.
30



1 MR. GILBERT: In the same way as stock is reduced.

2 MR. STEWART: What about this possibility which has
3 been raised that if they were faced with this type of
4 taxation that Co-operatives might proceed in the closing
5 stages of a particular fiscal period to grant price
6 rebates so that their incomes for tax purposes would be
7 reduced accordingly and then proceed to persuade the
8 members to loan the moneys back?

9 MR. HANSARD: There is a section in the Bonds Act
10 that has some bearing on that.

11 MR. STEWART: Have you any other comment on that?

12 DR. PATTERSON: That could conceivably happen.
13 Pricing-out is a phenomenom that can occur. In some
14 respects it would be a wholesome development for the
15 economy....perhaps I should say if it didn't go too far.
16 Competitive or lowering price would be involved and from
17 the point of view of the consumer that is very desirable.
18 Of course, if pricing-out meant a very severe reduction
19 in prices that could be upsetting to industry, at least
20 temporarily, and quite possibly the ordinary corporate
21 competitors would be very unhappy about it temporarily.
22 I feel almost convinced that pricing-out would not go
23 very far and many co-operators might not price-out at
24 all for a variety of reasons. One is that in
25 Co-operative history trading too close to the edge in
26 terms of prices has brought disaster to many
27 Co-operatives. They know that ambitious management
28 wants more and more assets as rapidly as possible; very
29 naturally because management itself will benefit in
30 better positions, promotions, larger salaries and so on.



1 In some respects...I don't mean this derogatorily..
2 there is some difference in interest between that of
3 management of a large Co-operative and its owner members
4 in this rather mild respect. I believe that Co-operative
5 management would not be inclined to go very far with
6 pricing-out . I have heard many comments over a number
7 of years from people who believe the Co-operatives should
8 lose this special tax advantage and it has been indicated
9 they don't believe that pricing-out would be particularly
10 harmful either to the corporate competitor or to the
11 economy as a whole.

12 MR. GILBERT: Relative to your question, Mr.
13 Stewart, about the prospect of price adjustments during
14 the fiscal year: There are presently instances of this
15 kind operating in Canada. They are not Co-operatives,
16 they are called apparently Buying Groups, which perform
17 a wholesale function insupplying goods and materials to
18 retailers. They are not competitors but this is the
19 essence of their operation.

20 MR. STEWART: These are people who buy and obtain
21 quantity discounts because of bulk buying?

22 MR. GILBERT: Yes, at a laid down cost plus a very
23 nominal percentage. If there is a residue of earnings
24 accumulated during the fiscal year this is adjusted in
25 the form of a price adjustment by the members and this
26 is part of the competitive situation which in the retail
27 industry is being fought and met daily.

28 MR. STEWART: Let me switch now to the position
29 outside Canada. Do you know of any country where
30 Co-operative activity is on a substantial scale where



1 Co-operatives are taxed in the same way as ordinary
2 corporations?

3 DR. PATTERSON: I don't want to pretend to know
4 very much about the foreign situation outside of the
5 United States but I understand that co-operation is on a
6 large scale in quite a large number of European countries
7 and I understand that the patronage dividend allowance is
8 common there.....France, Sweden, West Germany, Norway...
9 I believe that that is not unusual because they have been
10 treated especially liberally in countries like Sweden
11 because of the ideology involved. Sweden is considerably
12 further to the Left than our countries are. I don't know
13 whether it is fair to mention Russia. Of course the
14 co-operative business is on a grand scale. The reason I
15 feel it is unfair is because it is an entirely different
16 environment, and entirely different signification. It is
17 only because the matter of co-operatives in foreign lands
18 was raised that I mentioned it.



I/SS 1 MR. STEWART: I take it, Dr. Patterson, in the
2 United States patronage dividends are deductible, but
3 under the recent amendment only if they are paid as to
4 20% in cash?

5 DR. PATTERSON: That is correct. I would like
6 to say that the situation in respect to taxation of
7 cooperatives in the United States is in many ways similar
8 and comparable to that problem here in Canada. The
9 history is somewhat parallel. It goes back farther, and
10 has met with the same kind of disagreement cooperators
11 and those who feel they are injured by the cooperative's
12 tax advantage. Congress has looked at the question many
13 times and held long hearings.

14 Not until 1962 was any step taken of perhaps
15 major significance to modify this tax advantage. An
16 attempt was made in 1951 in which Congress thought that
17 it had so arranged the statute that a tax would be paid
18 either by the cooperative or by the patron members. In
19 any case, the arrangements were such that that would
20 occur, and its presumption was that the long-standing
21 treasury regulation that required payment by the recipients
22 on the patronage dividend receipts would continue as it
23 had for many years, and as it still exists here in
24 Canada. That is, the cooperatives if they did not pay
25 patronage dividends would be taxable on the amount not
26 distributed of their earnings. If they did, or to the
27 extent that they did, then the recipient would pay the
28 tax at whatever particular rate was applicable to the
29 particular recipient.

30 Then in the middle of 1950, what was called



1 the Carpenter Decision, and some other subsequent court
2 decisions, found that if the paper representing the
3 patronage dividend had no fair market value because it
4 had no maturity date or paid no interest or was in other
5 ways not very desirable as an asset, in that case it
6 could not be considered constructive income, and there-
7 fore was not taxable, and the situation resulting from
8 that, to Congress' disillusionment, was a very great deal
9 of the earnings of cooperatives escaped tax in both
10 hands. Cooperatives would allocate the earnings and
11 paper of no fair market value, and the recipients, through
12 court decisions did not have to pay, so that was really
13 a bad situation, and it lasted for a decade. Well,
14 anyway for a number of years.

15 Then finally Congress passed the 20% provision
16 that you refer to, and it is a complicated arrangement
17 if you take into account all the refinements that are
18 involved, but it is essentially simple to explain if one
19 bears in mind that it has created problems for the
20 cooperatives and for the treasury both in compliance and
21 in administration, and with your permission I would like
22 so that I can make as accurate a statement as possible,
23 I would like to read this little bit that I have here
24 describing the situation as it is at present in the
25 United States.

26 Under the 1962 law, the cooperative could
27 deduct patronage dividends paid in cash or property. It
28 could only also deduct allocated patronage dividends of
29 which at least 20% is paid in cash if (1) the patron
30 redeems the remainder of the allocation of cash during a



1 90-day period after issuance and receives written notice
2 of this option at the time he is notified of the
3 allocation, or (2) if the patron ~~can~~ consent in one of
4 the following three ways to pay income tax on the
5 allocation made to him: (A) By individually consenting
6 in writing ~~before~~ he receives the allocation that he will
7 treat allocated income as being received by him, (B) by
8 joining or continuing to be a member of the cooperative
9 that has adopted a bylaw requiring members to give
10 consent, and (C) by endorsing and cashing a cheque which
11 has clearly imprinted on ~~it~~ that endorsing it and cashing
12 it will constitute consent for paying income tax on the
13 total amount allocated even though the cheque amounts to
14 only 20% of such sum. If 20% of the allocation is paid
15 in cash and the patron has consented, then the allocation
16 is ~~is~~ classified as being "qualified", and is deductible
17 by the cooperative, but it must be included in the income
18 of the patron for tax purposes if it arises from the
19 business activity of the patron, consumer, cooperative
20 patron.

21 MR. STEWART: Is there anything in the United
22 States corresponding to our 3% rule?

23 DR. PATTERSON: No, there is not.

24 MR. STEWART: Now, I observe on pages 36 and 37
25 of your Foundation's brief that in the United Kingdom the
26 condition is essentially this: Cooperatives are allowed
27 a deduction for patronage dividends only if they are
28 paid in cash, but the patronage dividends are not in any
29 event taxable in the hands of the recipient. Is that the
30 situation?



1 MR. GILBERT: That is the situation that we
2 described.

3 MR. STEWART: Now, a number of methods of
4 attempting to equate the tax position of cooperative
5 corporations and other taxable corporations may exist,
6 but one which has been suggested at these hearings on
7 other occasions is that what might be done is to permit
8 a deduction of dividends paid by ordinary corporations in
9 the computation of their income for tax purposes, and to
10 leave the deduction in respect of patronage dividends of
11 cooperative corporations as it now is. Would you people
12 have any comment to make on that alternative?

13 MR. HANSARD: I think our position in respect
14 to that would be that we are here to some extent in a
15 dual capacity. We are here not only as taxpayers, but
16 also as citizens, and to the extent that that solution
17 would seem to dry up one present source of revenue which
18 our Government presumably needs, that is not a practical
19 solution. I haven't explored it very far.

20 MR. STEWART: Another suggestion has been made
21 and which I suppose might become particularly pertinent
22 if the rules were changed and pricing-out tactics were
23 initiated by some cooperatives, has been that cooperatives
24 might be taxed not in the same way as the ordinary
25 corporation but through a turnover tax which would be
26 applicable to their gross receipts. Have you any comment
27 with regard to that type of alternative?

28 MR. HANSARD: It is a new one with me, but I
29 think the answer must be if that kind of taxation produces
30 a different burden on those competing entities than is the



1 burden on the ordinary business, there would be still the
2 objection. I don't know what it would produce, but it
3 seems to me in order to place everybody on an equal
4 competitive footing, both might object to the same kind of
5 tactics.

6 MR. STEWART: I said earlier on today that I
7 would come back to the question of growth of cooperatives,
8 and I should say that in the representations which were
9 made to us last week on behalf of the cooperatives, the
10 position was taken that in the last few years at any rate
11 the growth of cooperatives had not basically exceeded the
12 relative growth of non-cooperative business.

13 Now, I think it is perhaps pointless for us to
14 discuss this. Your submissions are perfectly clear, that
15 the percentage of business which goes to the cooperatives
16 in both the producing and consumer cooperative spheres has
17 been steadily increasing. I think I might simply point
20q 18 out to you that they disclaim or deny this, but I take it
19 that all you can do is rely on the figures which you have
20 put to us, the tables and so on which you have put to us
21 in the brief?

22 MR. HANSARD: And also we would rely on the
23 fact that the Commission undoubtedly has access to a lot
24 more information than we have, and we are satisfied to have
25 the position checked. We think our figures are correct
26 and the sources were given. That would be what we say
27 about that. If we are wrong, we are wrong, but I don't
28 think so.

29 MR. GILBERT: There seems to be some confusion in
30 the statements of cooperatives regarding their growth rate.



1 I have a couple of extracts I would like to refer to.

2 The Saskatoon Star Phoenix of April 23 contained
3 the following new item with reference to the Congress of
4 the Cooperative Union of Canada:

5 "Rapid growth of the cooperative movement has
6 brought an increased need for training of
7 directors and staff, Harold E. Chapman, Principal
8 of Western Cooperative College, said here today."

9 Two days later, on April 25th, the following appeared
10 in the Star Phoenix:

11 "A working paper distributed as the Cooperative
12 Union of Canada Congress here says 'some very
13 misleading statements and monographs' have been
14 published on the growth of cooperatives in the
15 Canadian economy.

16 The truth, unfortunately, appears to be that
17 cooperatives have not grown ahead of the general
18 economy in the post-war years but have barely
19 managed to hold their own."

20 The 1959 Annual Report of Federated Co-
21 operatives Limited of Saskatoon had the following comment
22 on cooperative growth:

23 "Consumer cooperatives are growing! This is
24 already apparent from the higher sales volume
25 recorded by Federated and its members. But,
26 there is a key question that deserves an answer:
27 Are Cooperatives growing and expanding faster
28 than the overall economy of our area?"

29 And then they quote figures. Comparative
30 figures on total retail sales for 1958 and 1959 for the



1 Provinces of Manitoba and Saskatchewan reflect 4.8%
2 increase, and cooperatives for the same period reflect
3 an increase of 11.1%. The statement goes on exploring not
4 only the recent growth but the prospects of future growth
5 of cooperatives, so I submit to the Commission that the
6 statistical data, the appendix to our submission, in fact
7 tells the story of the remarkable cooperative growth in
8 both marketing and the consumer section.

9 Of course the other form of business organized
10 in a cooperative way is the credit union and Caisse
11 Populaire, and this growth has been even more spectacular.

12 MR. STEWART: Now, Mr. Chairman, I think those
13 are all the questions that I would propose to put on
14 cooperatives as such. I have a few that I would like to
15 put on the portions of the Foundation's brief that relate
16 to credit unions, and it may be that before I get into
17 that you or some of the other Commissioners may have some
18 questions on cooperatives.

19 COMMISSIONER GRANT: I have one. This is to
20 get my own mind straightened out or settled to some
21 extent on this great problem. It has to do with the
22 operation of the agency theory. I take it that the
23 agency theory applies to the marketing of a producer type
24 co-op as distinct from the price adjustment theory which
25 has more reference to the consumer type of cooperative.

26 As I understand the discussion of the testimony
27 or the evidence, whatever you wish that has been given
28 here today, a true agency you would agree exists if the
29 cooperative markets a member's goods and receives only a
30 fee or commission for the sale of the product for its efforts.



1 MR. HANSARD: I think that is so.

2 COMMISSIONER GRANT: Now, I believe that you
3 would go so far as to say that the members of a co-op
4 reach an agreement --- they enter into an agreement rather
5 with the co-op under which they say "You have the right
6 to market our products; if in the process of marketing our
7 products you receive more from them, from the sale, than
8 you have agreed in the first instance to pay us, that
9 you take from that your commission and that you remit to
10 us on the basis of our patronage the surplus that
11 remains."

12 In other words, members or patrons can make such
13 an agreement with the cooperative company and that does
14 not breach the agency principal, up to that point.

15 I would like to know as to whether or not we
16 reach a stage where the agency principal is breached,
17 or when we reach that stage it becomes a question of the
18 degree of control which the co-op exercises over the
19 product I take it.

20 MR. HANSARD: When the co-op ceases to act for
21 the account of the producer, of the member, and starts to
22 control it for its own account and starts to do
23 business with it, then it is getting away from the agency,
24 but it is hard to put in words.

25 COMMISSIONER GRANT: And it is very hard to
26 know just where the donkey's tail ends and his backbone
27 begins.

28 MR. HANSARD: That is right. We think there is
29 very little tail left on the donkey. It is all backbone
30 these days.



1 THE CHAIRMAN: Will you carry on, Mr. Stewart?

2 MR. STEWART: Yes, Mr. Chairman. Gentlemen,
3 in your Foundation's brief ~~commencing~~ at page 88, you
4 deal with credit unions and Caisse Populaire, and at the
5 bottom of page 90, you suggest that the credit unions of
6 today have become a closely integrated and highly
7 organized network of competitive financial institutions
8 which span the nation from Newfoundland to British
9 Columbia. You then go on, commencing on page 91, to deal
10 with the Central Credit Unions and the Provincial Credit
11 Union Leagues and the Cooperative Credit Societies.

12 When you object, as you do, to the tax-exempt
13 status of credit unions generally, is there again in this
14 sphere a possible distinction to be drawn between the
15 small credit union which deals direct with the individual
16 saver and borrower on the one hand with the large
17 organizations of the type which are dealt with on pages
18 91 to the top of page 95 of your brief?

19 MR. GILBERT: We would think not in the same way
20 as your earlier comparison this morning referred to 60% of
21 cooperative organizations having 200 members or less. We
22 feel that no distinction in tax treatment should be made
23 for cooperatives or the operations of credit unions
24 because of size.

25 Taxation legislation at the present time provides
26 graduated rates for corporation tax on profits.

27 It is our submission that in the case of those
28 cooperatives and credit unions who earn income, that they
29 should be exposed to the same tax treatment as the
30 ordinary business with whom they are competing.



1 MR. STEWART: Then I move on to the bottom of
2 page 99 of your brief where you suggest that these
3 organizations are very definitely in competition with
4 banks, trust companies, savings and loan companies and
5 finance companies. You say that the services the credit
6 unions render do not differ substantially from those
7 rendered by ordinary financial institutions, and in many
8 respects they are identical.

9 I take it that your approach to this is that
10 these credit unions are engaged in income-earning
11 activity, and therefore from a taxation point of view the
12 fact they may have a very close relationship with the
13 members --- much closer than one of these other
14 institutions is likely to have with customers of the same
15 type --- these facts should be disregarded?

16 MR. GILBERT: We are not suggesting that these
17 facts should be disregarded as part of the credit union
18 movement. The issue is one of taxation. I might suggest,
19 however, that the rapid growth of credit unions and the
20 growth of their membership is getting to be such that I
21 would suggest to the Commission that the past relationship
22 that existed in earlier years may be getting farther and
23 farther away from the credit union operation created by
24 the growing members.

25 MR. STEWART: This obviously depends on the
26 credit union, I take it. Some are small and serving the
27 same type of purpose as they did originally, and others
28 are much larger and I suppose necessarily more impersonal.

29 MR. GILBERT: That is right.

30 MR. HANSARD: Isn't the position this, Mr.



1 Gilbert, that up until a relatively short number of years
2 ago credit unions were all operating more or less on a
3 small and local basis, using elastic terms it is true,
4 but they were not of much significance in the financial
5 world and that would have been the case no doubt when the
6 McDougall Commission was going on. Do the figures you
7 have on growth relate largely to the period from 1944-45
8 to date?

9 MR. GILBERT: Yes, they do, and this is shown
10 I think in a very startling manner in the 1963 publication
11 of International Credit Union Yearbook where they
12 produce figures for Canada, the United States and other
13 countries, indicating a tremendous growth since 1957.
14 We have used some of this material in our charts.

15 MR. STEWART: On page 100 you suggest that the
16 effective rates of interest charged on loans by credit
17 unions are similar to and in some instances higher than
18 those charged by the banks. My recollection is that the
19 Ontario Credit Union League which has already given
20 evidence before this commission considered that their
21 effective loan rates were lower than those of their
22 competitors.

23 MR. GILBERT: When they spoke of competitors
24 to whom were they referring?

25 MR. STEWART: Well now, Mr. Gilbert, I am
26 afraid I cannot specify that at the moment. It would be
27 on the record, of course. However, I do know that we did
28 discuss among other things the effective rate on personal
29 loans by banks.

30 MR. GILBERT: Yes. As a matter of fact some of



1 this material has been lifted right out of the submission
2 to which you refer, and we draw attention and make a
3 statement for the simple reason that comparison of these
4 rates, which may range from 8% to as high as 1% per month,
5 were not always compared favourably with chartered banks
6 which might be one of the competitors to which they were
7 referring. It is true that the chartered banks are in
8 the small loan business today and they have various plans,
9 but it is also possible to borrow from the banks on the
10 strength of favourable credit application and ability to
11 repay at an effective rate of interest, 6%.

12 We have referred in this brief in the case of
13 small businesses, in some cases we understand credit unions
14 and particularly Caisse Populaire, make loans that, through
15 recently enacted Government-guaranteed loans for small
16 business, the effective rate would be $5\frac{1}{2}\%$, so I believe
17 in this way we do substantiate this statement in our
18 submission.

19 MR. STEWART: At the bottom of that page you
20 refer to the large number of branches which the chartered
21 banks had across the country. Do the credit unions not
22 claim that notwithstanding this they, that is the credit
23 unions, provide services in some areas where those
24 services would not otherwise be obtainable?

25 MR. GILBERT: This is possible. I could not
26 verify the claim of the credit unions, but for the
27 purposes of our submission, with the network of not only
28 chartered banks across the country but secondary financial
29 institutions of all kinds, there are very few regions in
30 this country which are so remote that they do not receive



1 the services of our ordinary financial institutions.

2 I can think of various provinces -- British
3 Columbia --- where settlement is very sparse, and to
4 my own knowledge no matter how sparse the settlement
5 might be, within a radius of 40 to 50 miles you would
6 find a chartered bank doing business for the general
7 public. I have not noticed or observed, or perhaps I
8 have overlooked a credit union operating in such an area,
9 so this statement which is attributed to the credit
10 unions could possibly be considered both ways.



1 MR. STEWART: Now, Mr. Gilbert, earlier in your
2 brief you categorized Credit Unions as one form of
3 a Co-operative. When you suggest that the present tax
4 exemption of Credit Unions be removed are you suggesting
5 in effect that they be taxed in the same way as other
6 Co-operatives?

7 MR. GILBERT: We are suggesting that they be taxed
8 in the same manner as their joint stock competitors
9 within the same industry.

10 MR. STEWART: In other words you are suggesting
11 they be taxed in the same manner as you would like to
12 see the Co-operatives taxed?

13 MR. GILBERT: Precisely.

14 MR. STEWART: Those are all my questions, Mr.
15 Chairman.

16 THE CHAIRMAN: This has been a very complete
17 review of the subject, I think. I am very grateful to
18 you, gentlemen, for the complete manner in which you
19 have replied to our inquiries and for your excellent
20 documentation. We, like your organization, are most
21 concerned with regard to equitable taxation in Canada
22 and I can well sympathize with the fact you feel there
23 may be some inequity. I suppose this is not the only
24 area of inequity. There may be others. You have
25 addressed yourselves to one in particular. We shall
26 certainly be concerned with trying to sort out any
27 difficulties with regard to the taxation on corporation
28 income. I think there is very clearly a difference
29 between corporations in business and individuals in
30



1 partnership in business. One is double taxed and the
2 other doesn't have a double tax. It may be that one is
3 taxed more than the other. That is something I am not
4 prepared to sound off on now. It looks to me as though
5 they are not taxed the same way. If your organization
6 is pursuing that any further we would be delighted to
7 have any assistance you can give us. It is an extremely
8 difficult problem.

9 I think you have been very helpful to us and I
10 appreciate your attendance and the work you have done.
11 Thank you very much, Dr. Patterson, for returning to
12 Canada and for your time and assistance.

13 DR. PATTERSON: Thank you very much, gentlemen.

14 MR. HANSARD: Thank you, Mr. Chairman, we have
15 had a very pleasant hearing. I don't know whether I
16 fully appreciate the point you were raising last but if
17 we can be of any help we would be delighted to do what
18 we can, sir.

19 THE CHAIRMAN: We will stand over until 9:30 on
20 Tuesday, October 15th.
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ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT
OTTAWA

ONT.

VOLUME No.:

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DATE

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1
2 ROYAL COMMISSION ON TAXATION

3 Hearing held in the Centre
4 Court Room, Exchequer Court
5 of Canada, Supreme Court Build-
6 ing, Wellington Street, Ottawa,
7 on Tuesday, the 15th day of
8 October, 1963.

9 COMMISSION:

10 MR. KENNETH LEM. CARTER -- Chairman

11 MR. H. HARVEY PERRY

12 MR. A. EMILE BEAUVAIS

13 MR. DONALD G. GRANT

14 MRS. S.M. MILNE

15 MR. CHARLES WALLS

16 LEGAL ADVISER:

17 MR. J.L. STEWART, Q.C.

18
19 RESEARCH DIRECTOR:

20 PROF. D.G. HARTLE

21
22
23 SECRETARY:

24 MR. G.L. BENNETT

25
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27 * * * * *
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INDEX TO EXHIBITS

<u>NO</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
224	Submission by the Canadian Conference of the Arts.	4052
225	Document entitled "Example of how Proposal 4061 for Corporate Charitable Donations Might Apply."	

* * * * *



Ottawa, Ontario,
Tuesday,
October 15, 1963

---On commencing at 9:30 o'clock a.m.

THE CHAIRMAN: Mr. Gelber, are you gentlemen ready?

MR. GELBER: Yes.

THE SECRETARY: Mr. Chairman and Commissioners,
the first brief this morning is being presented by the
Canadian Conference of the Arts. Mr. Arthur Gelber,
President of the Conference, is here before you this
morning, together with Mr. Philip Torno, Vice-President,
and Mr. D.Y. Timbrell, member of the National Executive.

I would like to enter this brief into the record
as Exhibit No. 224.

---EXHIBIT NO. 224: Submission by the Canadian
Conference of the Arts.

Mr. Gelber will say a few remarks in introducing
the brief.

SUBMISSION BY THE CANADIAN CONFERENCE
OF THE ARTS

APPEARANCES:

Mr. Arthur Gelber, President
Mr. Philip Torno, Vice-President
Mr. D.Y. Timbrell, Member of the National Executive

THE CHAIRMAN: Thank you, Mr. Secretary. Mr.
Gelber, we are all very sympathetic to the Arts and we
would just be delighted to recommend anything you care to
put before us. I think, however, we ought to test them
before we do. We had a chance to read this brief so
it will not be necessary for you to read it. Before
we address questions to you is there anything you would
like to say to us?

MR. GELBER: Not necessarily, sir, unless you



1 would like to have some idea as to the makeup of the
2 organization and the purpose for which it was created.

3 THE CHAIRMAN: Yes, you might tell us something
4 about the Canadian Conference.

5 MR. GELBER: Shortly after the end of the War
6 there was a conference at Kingston at which most of the
7 Arts organizations and people interested in art assembled
8 to discuss the position of the arts in Canada relative
9 to their own stature and status. The question of
10 government interest in the arts was discussed. As a
11 result of that conference an organization was created
12 called the Canadian Arts Council made up of the National
13 Arts Organizations. The purpose of it was basically
14 to lobby and publicize and propagandize for government
15 interest and support in the arts. The result of their
16 particular effort, plus other efforts, was the creation
17 of the Massey Commission, which issued the report on the
18 arts, social science, and humanities.

19 Following the Massey Commission report the
20 organization concentrated on publicizing the purport of
21 the Massey Commission and the need for establishment of
22 of such an organization which was eventually created in
23 the terms of the Canada Council. Following the
24 establishment of the Canada Council and at the suggestion
25 of the Canada Council the organization changed its name
26 from the Canadian Arts Council to the Canadian Conference
27 of the Arts.

28 During this time it has included every
29 organization which has either been established since
30 the Canadian Conference or were there at that time plus



1 some local arts councils. We feel that we represent
2 the majority of the arts organizations across this country.

3 Although the problem contained in this brief,
4 for the purpose of this brief, does not necessarily
5 seriously affect all the organizations the majority are
6 seriously affected by it. It is for this purpose that
7 we have presented this brief to this Commission.

8 THE CHAIRMAN: The ones listed in Appendix A
9 are dues paying members.

10 MR. GELBER: Quite right.

11 THE CHAIRMAN: Beyond that you feel you can speak
12 for the Arts in general because there are many
13 organizations beyond Appendix A?

14 MR. GELBER: We feel if we get to the local
15 community or city or provincial level we can bring in
16 practically every arts organizations that exists. We
17 feel it is best served by representing on the national
18 level. The Art Council are representing most of the
19 art organizations on their own local level.

20 THE CHAIRMAN: Thank you very much. Now your
21 recommendations are contained on page 5 and supported by
22 the preceding pages and I think what we might do is deal
23 with them one by one. There are four in number. The
24 first is: "That, for individuals, the limitation for
25 charitable donations be increased to at least 30 per cent
26 of income and consideration be given to removing it
27 entirely".

28 To the best of my recollection the average
29 donation of individuals, which is not a very good measure,
30 is something between two and three per cent. Do you



1 happen to remember?

2 MR. TIMBRELL: We find it difficult to discover
3 the statistics for individual donations. They are grouped
4 together in medical expenses and charitable donations.
5 Rough calculations suggest the level of individual
6 givings may be four per cent.

7 THE CHAIRMAN: There are some individuals, I
8 assume, that give beyond 10 per cent of income? I have
9 been rather impressed with the fact that I have heard
10 suggestions before that it go beyond 10 per cent. I would
11 have thought the suggestions had come from people who
12 have made tax free capital gains, although I cannot
13 distinguish. They are the type of people who might have
14 made the suggestion. If that is the case I can see very
15 little reason for increasing the deductible amount unless
16 one believes if he gets income tax free and turns around
17 and gives it away he should get a deduction from the
18 other part of his income for giving it away. I would
19 have some misgivings on that score.

20 MR. GELBER: We did have concern with those. We
21 believe there are a considerable number of individuals
22 in this country whose position on charitable donations
23 exceeds the allowable 10 per cent. On an idealistic
24 or altruistic basis, although the total average may not
25 reach 10 per cent, those that are prepared to give of
26 their income for this purpose should be given some
27 particular encouragement to support it. The Arts are
28 not supported by a large section of the population but a
29 more concentrated part of the population. It is growing.
30 Those who have had to do with campaigns over the years



1 have recognized that in the last five years there has been
2 quite a swell in the income free charitable donations.
3 We find the cultural organizations are at the low end and
4 more money might be available, particularly for the people
5 in the high giving bracket, if there was the possibility
6 of such a limitation and that the percent be raised to the
7 30 per cent level.

8 THE CHAIRMAN: You surprise me, Mr. Gelber. I
9 have been seeking information or confirmation of the
10 statement that some people give more than 10 per cent of
11 their income. That is out of income not out of other
12 gains. I have failed to find any. In the case of the
13 corporation it had something to do with increasing the
14 deductible limits from 5 per cent to 10 per cent. Even
15 though the corporation totals are extremely disappointing,
16 being one-quarter of one and one-half, there was
17 evidence that companies are giving away more than 10 per
18 cent. I have heard it said that individuals give away
19 10 per cent. I have never yet heard one say that he
20 gave away more than 10 per cent of the income received and
21 separately taxed. It may be that they are.

22 MR. TORNO: There is a two-fold aspect in this.
23 We must agree, of course, with the comment you make that
24 the national average individually is low and there are
25 only a limited number who do give up to 10 per cent.
26 We must recognize we do have some individuals rich
27 enough to go above it and who would be willing to give
28 more than 10 per cent if the provision were made for that
29 to be possible and out of such large gifts would come
30 the foundation for some of the objectives that we seek.



1 There is really no harm in permitting greater
2 than 10 per cent tax provision. If it is not taken
3 advantage of there is no loss in revenue. If it is used
4 advantageously something beneficially will have been
5 gained. Perhaps this is the most important thing. This
6 is what has guided us. By providing through legislation,
7 if we can achieve it, larger permissive gifts perhaps the
8 community may be encouraged to give more generously than
9 it does now.

10 MR. TIMBRELL: We are talking about a very few
11 people who are at the 10 per cent limitation.

12 THE CHAIRMAN: I thought I had dismissed the
13 average.

14 MR. TIMBRELL: I wanted to make that point
15 clear.

16 THE CHAIRMAN: I think I would feel a little
17 more in agreement with you if it were not for the very
18 high rates of progressive tax. The people you speak of,
19 who can be well in the tax rate of progressive taxation,
20 are in part saving very little by their substantial
21 gifts. If one opened this up I think I would agree
22 they might give away more money but I would suspect that
23 in their giving they would recognize that it was costing
24 them 30 per cent of the gift and the balance does not
25 come out of the Arts, the balance comes out of other
26 taxpayers.

27 I think one has got to be careful and say that
28 there is a cost. You have indicated there is not a cost.
29 I suggest there is a very real cost. Maybe 10 per cent
30 is unduly restricted. I am very dubious it ought to be



1 wide open.

2 MR. GELBER: I know people personally who are
3 affected by the 10 per cent.

4 THE CHAIRMAN: They are not giving away capital
5 gains.

6 MR. GELBER: No, they do give out of capital.

7 COMMISSIONER WALLS: Is it not a fact that they
8 could give 20 per cent and hold 10 per cent for the next
9 year? If in one year they wanted to go beyond 10 per
10 cent they could give 20 per cent and hold 10 per cent for
11 the next year's tax. Am I correct in that?

12 MR. GELBER: Yes, that is a one time situation.

13 THE CHAIRMAN: It is not quite, Mr. Gelber. It
14 is true you cannot carry it for more than one year. If
15 you use it up in a subsequent year you can carry it
16 forward.

17 MR. GELBER: There must be an accounting some
18 time.

19 MR. TIMBRELL: Someone who gives more than 10 per
20 cent every year is not going to get the full deduction.

21 MR. TORNO: I wonder if it would be appropriate
22 to discuss an aspect I was holding for discussion with
23 our second recommendation?

24 THE CHAIRMAN: By all means, go ahead.

25 MR. TORNO: You raise the point that the money
26 would be given at a higher income tax bracket and
27 therefore at very little cost to the individual. I am
28 thinking of this in terms of corporations, which we will
29 be dealing with shortly. We are not thinking of it in
30 terms of the revenue, not of the giver but the beneficiary



1 who will benefit from the gift and to the extent that there
2 has been a growing tendency for the public generally to
3 feel that the moneys are taken by taxation and turned over
4 to government agencies who in turn distribute that money.
5 We are losing more and more of the right. We haven't
6 lost the right but the desire to personally make the
7 choice of where to make such gifts. Frankly, I would
8 like to see some counter balance to this activity on
9 the part of government where the individual or the
10 corporation might have an incentive or desire personally
11 to express where he wished to give his money and encourage
12 the charity of his choice rather than leave the choice to
13 government agencies.

14 THE CHAIRMAN: That sounds like the argument we
15 get in favour of doing away with charitable organizations
16 entirely. We have had that put to us by well-meaning
17 individuals that there is no incentive by way of
18 deduction. I think that is over-stressing it. I have
19 heard that more than once, perhaps more than twice. I
20 can't remember.

21 In paragraph 2 it is suggested that gifts up to
22 two per cent of the tax payable by a corporation be allowed
23 as a deduction from tax, provided that the total gifts
24 exceed 2 per cent of tax payable, and for any excess the
25 present deduction of 10 per cent of income remain.

26 I guess you deliberately did not say the extent
27 of the excess over two per cent of the tax payable by way
28 of gifts.

29 Have you anything to suggest along that line
30 providing the total gifts exceed two per cent of the tax



1 payable? Exceed by how much?

2 MR. TIMBRELL: Any amount, we would suggest.

3 THE CHAIRMAN: One cent?

4 MR. TIMBRELL: The objective of this recommend-
5 ation or suggestion is that there be a definite incentive
6 or spur to increase donations which are at a very low
7 level, and to provide the spur by means of a tax credit.

8 THE CHAIRMAN: Would I not and other taxpayers
9 be in the position of saying that if this were allowed
10 the corporations would be giving away our money at their
11 choice?

12 MR. TIMBRELL: I think that raises the fundamental
13 position about corporate giving. I think while there
14 is less than 100 per cent deductions corporate directors
15 will necessarily say that they feel they cannot make any
16 decision on behalf of shareholders to give away share-
17 holders money. In other words, the corporation does
18 not have the conscience. Nevertheless, corporate
19 directors take a lot of decisions on behalf of share-
20 holders to withhold the cumulative earnings and reinvest
21 them. Perhaps you would like to think about it in this
22 way: Replace the individual conscience with fiscal
23 incentives.

24 THE CHAIRMAN: The individual conscience has been
25 met morally and legally over the years, shareholders
26 protesting about corporate directors giving away money.
27 That has been part of the job of administering the
28 affairs of the company. I think legally it is permissive
29 and I think morally it is permissive and needs no
30 extreme treatment as this in order to specify the



1 conscience of directors. Maybe it needs some more
2 incentive to get companies to do it. Just how far is
3 one going? This would move up the fifty-fifty division
4 as it now stands with a highly profitable company to
5 100 per cent contribution by government.

6 MR. TIMBRELL: Corporations that give two per
7 cent, a donation equalling two per cent, would double the
8 deduction. I think there is an example here. Possibly
9 if I could enter this as an exhibit ---

10 THE CHAIRMAN: I wish you would. I would like to
11 see this.

12 THE SECRETARY: I am entering this as Exhibit
13 225, Mr. Chairman.

14 ---EXHIBIT NO. 225: Document entitled
15 "Example of how Proposal
16 for Corporate Charitable
Donations Might Apply".

17 MR. TIMBRELL: It is based on the assumption
18 which is set out in the top five lines. We have a
19 corporation which has an income of \$100,000.00 and
20 presently makes donations of \$2,000.00, which is slightly
21 above the national average but not too much. The tax
22 would be \$39,000.00 leaving for the shareholders
23 \$59,000.00.

24 Under our proposal the corporation would first
25 of all make a calculation of its tax on taxable income
26 of \$100,000.00, which would be \$40,000.00, and then it
27 would calculate two per cent of that which would equal
28 the donation credit. This is \$800.00. Then in the
29 two columns at the bottom of the page we take two extreme
30 circumstances. First of all, the corporation might



1 not increase its donations at all, merely using the credit
2 to increase its own profits. Secondly the corporations
3 which would increase donations to take full advantage of
4 the credit. In each case income begins at \$100,000.00.
5 Donations made in the first case are \$2,000.00 and in the
6 second case \$2,800.00 leaving a net of \$98,000.00 and
7 \$97,200.00.

8 The figures in the box are taxable income
9 calculated according to our method, which is the income
10 minus the donations which exceeded the credit.

11 In the case of corporation A the donations are
12 \$2,000.00 and the credit is \$800.00 so the remainder is
13 \$1200.00. This is a deduction from income bringing the
14 taxable income to \$98,800.00.

15 THE CHAIRMAN: I don't see why the credit is
16 brought in.

17 MR. TIMBRELL: We are allowing it as a deduction
18 from the tax and the remainder is a deduction from income.

19 THE CHAIRMAN: I can understand the \$2,000.00
20 but the \$800.00 is a deduction from tax.

21 MR. TIMBRELL: That is right. That is how the
22 corporation's own accounts would appear. So far as the
23 taxable income is concerned of the total amount of
24 \$2,000.00, \$800.00 would be a tax credit and the remainder
25 would be a deduction from income.

26 THE CHAIRMAN: The donations are divided between
27 \$1200.00 deductible from income and \$800.00 deductible
28 from tax?

29 MR. TIMBRELL: Yes.

30 THE CHAIRMAN: Of the \$98,800.00, \$2,000.00 is



1 the donation deductible from income and \$800.00 the
2 deductible from tax.

3 The Commissioners are not clear on this. Would
4 you explain it again?

5 COMMISSIONER GRANT: The same result is achieved
6 by adding back \$800.00.

7 MR. TIMBRELL: It is in that example, yes.

8 COMMISSIONER GRANT: Put against donations made
9 \$1200.00 from income and \$800.00 from tax.

10 MR. TIMBRELL: Yes. In the case of corporation
11 you might note the deduction from income is \$2,000.00,
12 which is donations minus \$800.00, which is our suggested
13 credit. In the case of corporation B it is \$2800.00
14 minus \$800.00.

15 THE CHAIRMAN: It is \$2,000.00 from income and
16 800.00 from tax in the case of corporation B?

17 MR. TIMBRELL: Correct.

18 COMMISSIONER BEAUVAIS: I don't understand that.

19 THE CHAIRMAN: You will have to go to the
20 context, page 5, Item 2. It is two per cent of the tax
21 payable deductible from the tax not deducted from income.

22 COMMISSIONER BEAUVAIS: What I don't understand
23 is: there is a deduction in tax of \$400.00 and there is
24 just a donation of \$2,000.00. Why give a reduction in
25 tax?

26 MR. TIMBRELL: In the case of corporation B we
27 are assuming the total deductions are raised to \$2,800.00.

28 COMMISSIONER BEAUVAIS: You suggested there
29 will be tax on \$39,000.00 and then you give a credit.
30 Why would you give a credit?



1 MR. TIMBRELL: Our suggestion is the donations
2 be to the extent of two per cent. We are recognizing
3 that certain corporations will not increase donations.

4 COMMISSIONER BEAUVAIS: Without increasing the
5 donations?

6 MR. TIMBRELL: Yes, I think it is inevitable in
7 this type of arrangement. However, we would hope that
8 the moral suasion would be such that many corporations
9 would take advantage of the most credit.

10 COMMISSIONER BEAUVAIS: You have increased the
11 incentive?

12 MR. TIMBRELL: We are encouraging the voluntary
13 transfer from the public to the private sector.

14 THE CHAIRMAN: Meaning the Arts is the public
15 sector.

16 MR. TIMBRELL: Yes, charitable organizations.

17 MR. TORNO: All recognized charitable
18 organizations.

19 COMMISSIONER WALLS: Under your new system
20 the government becomes the donor rather than the
21 corporation. To what extent are these organizations
22 subsidized by the Federal Government at the present time?

23 THE CHAIRMAN: Don't you think we had better
24 stay at the example?

25 MR. TIMBRELL: I think a quick answer is that
26 each of the organizations strive to be supported and
27 some are more successful than others.

28 THE CHAIRMAN: I think Mr. Gelber can give you
29 a run down of the major ones pretty quickly. Any more
30 questions on the example?



1 COMMISSIONER PERRY: What confuses me is something
2 that Mr. Timbrell said that left me with the impression
3 that the credit would apply only if there were an increase
4 in donations.

5 MR. TIMBRELL: No, it would apply under any
6 conditions.

7 COMMISSIONER PERRY: That is what threw me off
8 when I read the context of your recommendations with that
9 in mind. I was even more confirmed it would apply not
10 only when there was an increase.

11 COMMISSIONER GRANT: Before leaving the example,
12 would I be correct in saying, as you were working this out
13 from the point of view of the shareholder, the example
14 is designed to make the shareholder see that he is not
15 losing too much of the income to which he is entitled as
16 a shareholder of the company?

17 MR. TIMBRELL: The calculation certainly shows
18 what happens to the shareholder. I don't think this is
19 the viewpoint from our recommendations.

20 COMMISSIONER GRANT: The net result is, if you
21 do allow the two per cent credit on your tax, that that
22 amounts in the example to one per cent deduction from your
23 net profit.

24 MR. TIMBRELL: We suspect, as you will see on our
25 second example, the effect so far as revenues are
26 concerned would be more like one-half per cent. We are
27 down at the taxable income in the box. The next line is
28 tax calculated on the taxable income, from which is
29 deducted the \$800.00 donation. The figures of
30 \$38,600.00 and \$38,200.00 are tax payable after the



1 credit. Deducting those figures from \$98,000.00 and
2 \$97,200.000, which appear in the third line of the example,
3 one produces the net profit which the company statements
4 will show at \$59,400.00 and \$59,000.00.

5 THE CHAIRMAN: Am I to understand the difference
6 in the net profit is the same difference as the reduction
7 and tax?

8 MR. TIMBRELL: That is correct, assuming in the
9 first example of corporation A it is when the donations
10 do not increase. In the example B the net profit is the
11 same even though the additional \$800.00 donations have
12 been given.

13 THE CHAIRMAN: We have given away \$800.00 more
14 in B and reduced the profits \$400.00.

15 MR. TIMBRELL: Reduced the profits by nothing.
16 This is \$800.00 which we hope to get. Each of those tax
17 rates is expressed as percentage of the taxable income.

18 THE CHAIRMAN: We have given away another \$800.00
19 in B without it costing anything.

20 MR. TIMBRELL: To the corporation. Now
21 naturally there is the question: How does this affect the
22 revenues? We have attempted to have a shot at this on
23 a rather broad basis. I am sure your staff will have a
24 much clearer idea. Our impression is it is not an
25 extreme cost and it is an important spur. The maximum
26 effect would be two per cent of corporate tax payable.

27 COMMISSIONER PERRY: This is simple!

28 MR. TIMBRELL: I realize it is rather complex,
29 Mr. Perry. If I had been doing it again I would suggest
30 the credit be placed on the previous year's tax. The



1 maximum cost of the revenue, we will say, is two per cent
2 of the corporate tax payable. It could not exceed that.
3 It seems unlikely the effect would be the maximum. Some
4 people would not increase by the full two per cent. We
5 suggest 1.5 per cent of the tax payable would be a
6 reasonable estimate of the loss of revenue.

7 The 1960 statistics are our latest. We have
8 shown a total corporate tax payable of one billion one
9 hundred and seventeen millions. One and a half per cent
10 is 17.6 millions and the total corporate taxable income
11 for 1960, three billion, two hundred and three million
12 so the savings would be over one-half per cent. We
13 suggest this is the maximum cost of the proposal which
14 could be of great assistance to charitable organizations.

15 THE CHAIRMAN: \$17.6 million.

16 MR. TIMBRELL: Yes.

17 THE CHAIRMAN: And what would it increase the
18 arts by? Obviously this is going to education, culture,
19 and going to the arts.

20 MR. GELBER: Our brief represents all charitable
21 purposes.

22 THE CHAIRMAN: This has increased charitable
23 giving by \$17.6 million?

24 MR. TIMBRELL: We would hope that from our own
25 point of view that the cultural sector might benefit
26 slightly more than the welfare sector. We feel additional
27 donations might be more to our area.

28 THE CHAIRMAN: Am I correct that the 17.6
29 million is a loss to the Federal Treasury of 17.6 million
30 and a gain in exactly the same amount to charitable



1 organizations. Is that correct?

2 MR. TIMBRELL: Yes.

3 THE CHAIRMAN: No more, no less.

4 MR. TIMBRELL: No more, no less.

5 COMMISSIONER PERRY: This is on the assumption
6 all corporations pick up their two per cent.

7 MR. TIMBRELL: This is an assumption of the
8 average.

9 COMMISSIONER PERRY: An average of one and one-
10 half per cent.

11 COMMISSIONER GRANT: The government would be
12 allowed a little more than one and a half per cent for
13 this purpose.

14 MR. TIMBRELL: That is correct.

15 COMMISSIONER GRANT: Without any say as to how
16 it is to be distributed.

17 MR. TIMBRELL: That is correct.

18 MR. TORNO: Other than acknowledging which
19 charitable organizations it recognizes for this purpose.

20 THE CHAIRMAN: Mrs. Milne has a question.

21 COMMISSIONER MILNE: I am sure you can resolve
22 my difficulty. It is on page 2, 1.5 per cent. You
23 think it is possible this would be a more reasonable
24 average?

25 MR. TIMBRELL: Yes, corporation A could not
26 have increased its donations at all. Having an income
27 of \$100,000.00 as a percentage of its taxable income
28 would reduce tax by .4 per cent. The range is between
29 .4 per cent and .8 per cent.

30 COMMISSIONER MILNE: I see.



1 MR. TIMBRELL: When we do it on a broad basis
2 we say the overall is .5 per cent, which means a
3 \$100,000.00 corporation is rather richer than the
4 average.

5 THE CHAIRMAN: This is a most ingenious proposal.
6 I would have been very disappointed in you if it had not
7 been.

8 MR. TORNO: Could I make a comment? I think
9 that you and the members of the Commission have the figure
10 of \$17 million in your mind at the moment. The taxation
11 structure being what it is at the present time our
12 economy is not producing many individuals who have the
13 wealth and resources of the Carnegies and Rockerfellers.
14 We are living in a different era.

15 This brief is presented in the sense it is on
16 behalf of charitable organizations. We haven't isolated
17 the arts organizations only. It is disturbing that there
18 are no endowment funds of a substantial size for the
19 organizations we represent. There are three museum
20 institutions in the United States, Boston, the
21 Metropolitan in New York, and the Cleveland Museum, for
22 example. They all have endowment funds at the present
23 moment that are larger, in one or two cases twice as much,
24 as the Canadian donation of \$50,000.00. We would like
25 to find ways to encourage those individuals and
26 corporations who can afford it, who would be willing, we
27 would like them to be given some incentive to begin a
28 more generous pattern of giving, to enable them to begin
29 to give more money.

30 The proposal which has been put before you here



1 was in fact strongly restricted by Mr. Timbrell. I had
2 suggested twice this much. He felt that would be an
3 unreasonable request and felt you would not recommend it
4 to the government. This is only based on the principle
5 that if we could, by using this, encourage corporations
6 to take advantage of a provision in the tax legislation
7 to give away money that is in fact costing the share-
8 holders nothing they might do so. Seventeen million
9 dollars in my opinion is not a very large sum of money
10 for this purpose when it is going to be distributed.
11 I think a report published recently showed that the
12 arts organizations are getting less than one per cent of
13 gift money. Most of it is still going to go to the
14 educational, welfare, and the medical institutions.

15 THE CHAIRMAN: The directors ought to be locked
16 up if they don't give away everything they are permitted
17 to give away. It costs the shareholders nothing. They
18 are giving away somebody else's money. There is no
19 cost to their shareholders and at the same time the
20 companies are getting credit for good will. I would
21 dismiss any directors that didn't give away the full
22 amount! On the obverse side, of course ---

23 MR. TIMBRELL: I think this would be considered
24 a healthy atmosphere to get directors to make decisions.

25 THE CHAIRMAN: As I say the observe of that
26 is it is being generous with somebody else's money. I
27 would have thought there should be some cost to somebody,
28 whatever the donation is, whether it is 10 per cent cost
29 it is still a cost.

30 MR. TORNO: I don't feel that. When we consider



1 tax rates they don't fluctuate. They don't depend on an
2 increased supply of money. Tax rates rise too. Why
3 cannot we use the obverse argument and say it is a
4 permissible thing to reverse some of this and that the
5 discretion for spending it be given back to the public.

6 THE CHAIRMAN: Give back to the public the
7 discretion to spend the Government Treasury? I think
8 the people have that discretion now through elected
9 representatives in an organized way. If we could all
10 dip our hands in it would be a little bit exorbitant.

11 MR. TORNO: Yes, sir we do have it in that way.
12 When the Canada Council was first established we cheered
13 when we saw it produced \$3 million annually for
14 distribution. While that seemed encouraging a couple of
15 years later the Prime Minister announced he was going to
16 give \$5 million for the National Fitness Council. I
17 don't wish to beg the relative merits of the Canadian
18 Council other than to say the amount happens to be fixed
19 under the provision made. We would like to see it keep
20 pace with the depreciating value of the dollar. This is
21 why this is presented to you.

22 THE CHAIRMAN: I could say to you that I am
23 on your team there. I am all for the Canada Council
24 having more money because I like the Arts, but that is
25 apart from the subject.

26 Mr. Gelber, I think you might reply to Mr.
27 Walls question as to the extent of the support the
28 government provides to the Arts. The symphony is
29 support 50 per cent from the audience and where does the
30 rest of the money come from?



1 MR. GELBER: I cannot answer for every
2 organization. I can use those organizations with which I
3 have had experience. The subsidies are at various
4 levels. The performing Arts organizations are just
5 subsidized for their contact with the people, the public
6 interested. They receive grants from the Canada
7 Council which comes from, as Mr. Torno mentioned, comes
8 from income of an invested fund available by the
9 Government, with a limitation pretty well on its income.
10 There are grants in certain provinces of this country.
11 They are given grants from one department or another,
12 usually the Department of Education, except in the
13 provinces of Quebec and in Ontario where there is the
14 Canada Arts Council, also a fixed amount in the estimates
15 for the year. The other provinces have grants based on
16 a variety of experiences.



1 On the local level, aside from from Greater
2 Montreal and Metropolitan Toronto, I am not aware of any
3 organized effort upon the municipal level to support the
4 arts. I do know that cities like Winnipeg and Vancouver
5 do give certain grants for certain specific purposes which
6 may have to do with the arts. In the trends of organized
7 effort Metropolitan Toronto and Greater Montreal are the
8 only ones I know of.

9 Would you allow me to go back to the
10 question of the amusement tax, which is a provincial
11 right. In the Province of Ontario it is waived by the
12 government when the performance takes place of a native
13 Canadian artistic organization from anywhere in the
14 country. On the question of the amusement tax on imported
15 shows where a local organization is using an imported show
16 for income purposes, there is a saw-off on the tax
17 situation. In the Province of Quebec there is no
18 deduction allowed for amusement tax for local purposes.
19 The tax is charged. In some of the Western Provinces
20 there is a deduction by individual governments whereas in
21 Ontario such performances are allowed free. The balance
22 comes from campaigns run by organizations, voluntary
23 boards with private individuals and corporations. This is
24 the extent and the manner in which funds are raised.

25 There is an organization which I have had a
26 considerable amount to do with. This is the National
27 Ballet. We require as high as \$260,000.00 to meet our
28 deficit on a three-quarter of a million dollar budget. Of
29 this amount less than 50% comes from the Government
30 support, the Government sector, and more than 50% comes



1 from private and corporate donations. Up until recent
2 times most of the funds did come from private and corporate
3 donations. There has been some increase as a result of
4 the Canada Council in the Province of Quebec and what is
5 forthcoming in the Province of Ontario. Mr. Chairman,
6 when I talk about donations I mean private individuals and
7 corporations and some foundations. Not all foundations
8 are geared for the purpose for which we are discussing.

9 COMMISSIONER WALLS: Thank you. You are
10 putting quite a load onto the Government under this system
11 without eliminating any great increase in the amount of
12 funds, based on your own figures. On page 3 of your
13 brief you estimate 1.4% of taxable income of corporations
14 is today going towards these charities. So you are only
15 stepping it up to 1.5%. It appears to me, unless my
16 figuring is wrong, you see a possible gain of about
17 \$3,000,000.00.

18 MR. TIMBRELL: Our objective is 2%. 1.4%
19 at the present estimated increase of .55%.

20 THE CHAIRMAN: As set out on page 2, .55%
21 would be 1.99%.

22 MR. TIMBRELL: Not quite, 1.95%.

23 THE CHAIRMAN: Pretty close!

24 COMMISSIONER BEAUVAIS: There would be a
25 loss of revenue in the deduction of tax in example A.

26 THE CHAIRMAN: 17.6 million.

27 COMMISSIONER BEAUVAIS: 17.6 is example B.

28 THE CHAIRMAN: Total loss. Welfare and
29 charity will receive 17.6 and the country will be down
30 17.6 in taxes.



1 MR. TORNO: Flexibility is built into this
2 too. It is going to be adjustable depending on the total
3 revenues taxable. When Mr. Gilbert spoke of the cities
4 of Montreal and Toronto and I had mentioned to you the
5 Canadian Council Fund. Montreal raises its money from the
6 arts, siphoning out from sales tax a percentage. I think
7 it is one percentage. So it is very easy to see that the
8 fund available does grow, because of the total amount of
9 money in circulation increasing. Toronto's fund is fixed
10 at \$250,000.00. This was an unfortunate thing and we
11 believe an omission when Bill 80 was passed and the
12 provision was made for \$250,000.00 about seven years ago.
13 In the course of time there have been demands for money
14 and there is no provision to enable the legislators there
15 to increase that and provide more money. The seventeen
16 million is what we think of as a start.

17 THE CHAIRMAN: Moving on to number 3, I am
18 rather intrigued by the lifetime deduction of, say,
19 \$100,000.00. I am not very sure how one rectified that,
20 how one is able to distinguish between the lifetime one-
21 time gift and the annual gift. Is this intended to be
22 once during a lifetime, or can you spread it out?

23 MR. TIMBRELL: The intention is that in
24 addition to the annual deductions there would be a further
25 limitation of \$100,000.00 over the lifetime of an
26 individual. This would mean, for example, the individual
27 might in addition to meeting his maximum of whatever the
28 percentage is give ten gifts of \$10,000.00 over ten years
29 or two gifts of \$50,000.00. Another way of getting around
30 the limitation which is imposed on, we think, an important



1 class of givers who occasionally give over 10%.

2 THE CHAIRMAN: Would I be right in looking
3 at it from the administrative standpoint that class A and
4 class B gifts, class A a percentage limitation and class
5 B subject to a lifetime total dollar limit.

6 MR. TIMBRELL: Yes, that would be a good
7 way. We have a precedent for this in the United States
8 gift tax arrangement.

9 MR. GELBER: The basis is not consideration
10 of the year by year expenses of organizations, but rather
11 to encourage the public sector to help develop institutions
12 at a variety of levels which is lacking in this country
13 and those which exist in terms of expanding their needs.
14 In the arts one can think of the galleries and museums,
15 etcetera, where there is an increasing demand for space
16 which will require building programs which will necessi-
17 tate large gifts in terms of the needs of the institutions
18 and the possibility of gifts in kind of works of art which
19 would be determined on an independent basis as to their
20 value. This would also, I presume, affect other institu-
21 tions not necessarily in the arts or social welfare, but
22 education interests, all of which are expanding and
23 require large sums in order to develop their capital
24 programs and needs which if they remain at the present
25 level are siphoned off from the needs of the normal
26 operations and the funds which will be given
27 for capital purposes.

28 THE CHAIRMAN: Would it not be suitable
29 under this proposal number 3 to place a minimum one-year
30 amount so it will not be simply a means of comparison to



1 the 10% limit? That is to say, in no year shall class B
2 gift be less than \$15,000.00 or \$20,000.00, some such
3 amount, so it will not come up annually.

4 MR. TIMBRELL: I think that would be very
5 reasonable.

6 THE CHAIRMAN: It takes care of substantial
7 gifts in kind or large capital donations which one might
8 wish to make. Also it would encourage fairly substantial
9 gifts at one time, which should appeal to you.

10 We will move on to number 4 --- gifts in
11 kind. I don't think I was aware there was any particular
12 difficulty in that. You point out that one has to proceed
13 to do it by rather irregular means or devices, that is not
14 the term you use, but are the devices any more unnatural
15 than a sale and subsequent donation of cash? It doesn't
16 seem to me that is a very unnatural way to do it.

17 MR. TIMBRELL: I think it seems unnatural
18 to some givers, Mr. Chairman. I am told by certain art
19 galleries, one art gallery in particular, that when a
20 donor is considering making a donation of a painting of
21 substantial value and it is explained to him that the
22 deduction of a gift in kind is not permitted and it is
23 explained that he has to sell the painting to the gallery
24 and then donate an equal amount, this is not always
25 accepted in the spirit it is given. It is thought of as
26 a gimmick. He says "I am giving this thing. Why should I
27 be involved in tax gimmicks?" The very fact that one has
28 to explain a straightforward transaction is not clear under
29 the law and throws doubt into the minds of some donors
30 whether they should be doing it.



1 THE CHAIRMAN: You say it has been found
2 that taxpayers make a profit by giving away articles. I
3 am not quite clear how it works. I think it has to do
4 with rather generous valuations.

5 MR. TIMBRELL: This happens at present in a
6 matter where there are no checks by means of valuation at
7 all. The donor who does decide to go ahead with the sale
8 of the gift can arrange what the sale price shall be
9 without an independent valuation. I think the valuation
10 procedure might add some checks to the present situation.

11 COMMISSIONER WALLS: Have any of your
12 particular organizations decided in Court the Department's
13 interpretation of property which covers things like
14 pictures?

15 MR. TIMBRELL: I cannot recall any Court
16 cases. The situation, as I understand it, is just not
17 clear. Rather than risk a Court action the sale and re-
18 purchase type of action is advised.

19 MR. TORNO: This, gentlemen, is of peculiar
20 interest to those institutions that house material, our
21 museums and art galleries. The amount of such material
22 that has been made available to date has necessarily been
23 limited. With recent affluence the number of works of
24 art privately acquired which ultimately will be given as
25 gifts to institutions has become more frequent. From the
26 point of view of the museum institutions and the art
27 galleries there is some embarrassment on their part in
28 having to enter into an arrangement whereby no fair
29 guaranteed market value for the work is established in the
30 transaction, so we advise this as much to protect the



1 institutions and to ensure they can grow sensibly. There
2 can, of course, be appreciation in the value of a work of
3 art. We have seen something bought, say, at auction ten
4 years ago that may have doubled in value and the owner may
5 be willing to part with it at the present time and give it
6 to an institution in Canada for the benefit of our people
7 and that work should be appraised in today's market. It
8 is preferably done by an independent authority rather
9 than by an arrangement freely discussed between the
10 institution itself and the donor and some artificial value
11 attributed to it.

12 THE CHAIRMAN: We got that point from Mr.
13 Timbrell's point.

14 MR. TIMBRELL: I understand from my source
15 of information the gallery would very much welcome a gift
16 whereby an independent valuation was part of the system.
17 They don't like entering into arrangements for excessive
18 purchase prices.

19 THE CHAIRMAN: Do you know if there is much
20 of that occurring at the present time?

21 MR. TIMBRELL: I can only report hearsay.
22 I understand there is quite a bit of it.

23 COMMISSIONER MILNE: I hope you will consider
24 this relevant. I am thinking that many collectors in
25 their choice of collections will have certain ideas in
26 mind. I was wondering what would be the thought where the
27 donor would wish, because of uncertain provisions that
28 would be inherent in this suggestion, to give something
29 that possibly the collectors might not desire to accept.

30 MR. TORNO: I am sorry, I missed the last



1 part of it.

2 COMMISSIONER MILNE: Supposing a donor would
3 like to give from his collection or her collection to an
4 art group something that the donor obviously thought was
5 of some value because it was in his or her collection and
6 because of the selectivity within the art group this
7 particular donation was not valuable to them. How would
8 this be dealt with? It seems to me this is possible.

9 MR. TORNO: It works somewhat in this way:
10 The individual collector, I for example am one, have things
11 which are of interest to myself. Some things are
12 negligible in cost and other items can be very costly in
13 terms of intrinsic worth of the object, their material
14 being unique and irreplaceable. I may feel it ought to be
15 a welcome gift that is warmly received by the institution.
16 I might offer it under the present arrangement. The whole
17 thing is too fluid and loose. If I offer it on the basis
18 of an independent appraisal, then at least its value in
19 today's market is established. The institution can
20 decide whether it is a valuable addition and would be of
21 value to the public. Under the present circumstances
22 they are accepting certain kinds of gifts they don't want,
23 but they are embarrassed about embarrassing an important
24 supporter.

25 COMMISSIONER MILNE: Then there would be
26 an independent appraisal?

27 MR. TORNO: Which establishes a market and
28 the museum can say on this basis they are willing to
29 accept it and the exchange takes place.

30 THE CHAIRMAN: I think we would like to know



1 more about donations in kind. I know that in other
2 countries this occurs pretty often. I have been curious
3 about Canada. I have heard it does arise occasionally,
4 but I have thought very little of it and felt there was
5 very little need to amend our Tax Act in respect to this.
6 This is the first time I have been made aware that there
7 is a need. Dr. Huntford, I think was to appear before
8 us and I was hoping he would have something to say, but if
9 you have any further information on the subject, I would
10 like to know about the need to take care of this.

11 MR. GELBER: On this particular item,
12 because of the importance of it, one of our member associa-
13 tions the National Museums Association will be presenting
14 a brief to this Commission some time later on, which will
15 specifically go into this matter in detail.

16 THE CHAIRMAN: That is first rate. I have
17 forgotten.

18 COMMISSIONER WALLS: I have one thing before
19 we leave this subject. If this section of the Act requires
20 clarification, and I think perhaps it does, do you wish
21 consideration to be given to a gift of services? It is
22 a gift of money or property, you can't give a gift of
23 services?

24 MR. TORNO: No, sir. I act as trustee of
25 museums and I think that within the community of museums
26 we take the attitude that those who are members of the
27 staff are professionals and are entitled to compensation
28 for their efforts. The rest of us who assist do so willingly
29 and freely. To establish any provision for such tax
30 relief for individuals might lead to abuse, might lead to



1 the involvement of individuals for tax-saving purposes and
2 mean an intrusion in efforts where I believe the labour of
3 love is more important.

4 THE CHAIRMAN: Thank you. We don't seem to
5 have a record of the National Museum Association appearing
6 before us. I would be grateful if before you leave you
7 would mention that to Mr. Bennett, our Secretary. If we
8 have nothing, would you run this matter down and see
9 whether we are going to receive something.

10 That is all the questions we have, gentlemen,
11 and it simply remains for me to say thank you very much
12 indeed for appearing this morning and helping us with the
13 problem. We understand your points and will certainly
14 consider them. We would like to know more about the
15 matter of gifts in kind. I for one am most sympathetic to
16 greater donations in this area. I am extremely unhappy,
17 and have been for many years, with the low level of
18 corporation giving. To my way of thinking it is a very
19 low level. There must be a great number not coming up
20 to the average. I would hope that a way could be found
21 to encourage more in this area. I know of some efforts
22 that are being made. I would think the arts might perhaps
23 in an organized manner approach corporations or their
24 organizations. Thank you very much indeed.

25 MR. GELBER: Thank you very much indeed,
26 Mr. Chairman and Commissioners.

27 THE CHAIRMAN: We will stand over for ten
28 minutes.

29
30 ---Short Recess.



1 SUBMISSION OF MR. F.S. CAPON

2 APPEARANCE: Mr. F.S. Capon.

3 THE CHAIRMAN: Good morning, Mr. Capon. Thank
4 you very much for coming back. You will recall that
5 we shut you off last time when you were just about to
6 make a long speech, I believe, and I apologize for it.

7 We were extremely interested, as was the whole
8 company, and we would like to do justice to your
9 submission. I think we pretty well understand the broad
10 outline, but I would like just to carry on in the same
11 way we were doing before, and we have asked Mr. Stewart
12 to come back, too. So we will request Mr. Stewart to
13 carry on with his questioning unless there is anything
14 you wish to say; but I don't imagine there is?

15 MR. CAPON: No, Mr. Chairman.

16 THE CHAIRMAN: Yes, Mr. Stewart?

17 MR. STEWART: Mr. Capon, I would like to move,
18 if I might, to page 26 of your brief, where you deal with
19 the effect of your proposal on the revenue, and I refer,
20 in particular, to paragraph 44 where you deal with the
21 position which would arise if your proposals were put
22 into effect and if corporate income remained at its
23 original figure of \$3,000,000,000.00.

24 Now, you deal with the return which would be
25 received from foreign stockholders, which, you have
26 already indicated, hold about 60 per cent of Canadian
27 equities, and you proceed in paragraph 44 on the
28 assumption that an effective tax of 57½ per cent is
29 imposed on their 60 per cent of the \$3,000,000,000.00,
30 and my recollection is that when I raised the question



1 in the spring as to the effect that this might have on
2 foreign stockholders of equities you indicated that you
3 would not be too concerned if some of those foreign
4 investments were disposed of. Is my recollection
5 correct?

6 MR. CAPON: Yes; as a Canadian I would not be
7 the least bit disturbed if they disposed of them; but my
8 problem is not to get them to dispose of them, necessarily.
9 I think that is beyond the scope of the presentation I
10 am trying to make to the Commission. I am not opposed
11 to their being an incentive for them to dispose of their
12 equity stock, but not as a result of anything said in
13 here. All that I have said here is that I suggest that
14 for the time being they continue to pay the tax which
15 they are at present paying, but these proposals will make
16 a difference in the tax load suffered by foreign share-
17 holders.

18 MR. STEWART: You next deal in paragraph 44
19 with the tax which would be payable under your scheme by
20 Canadian institutional and corporate shareholders, and
21 you proceed on the basis of a 50 per cent rate there.
22 Would it be fair to say that when we discussed this in
23 the spring you indicated that if the eliminating of this
24 tax on this particular class of shareholders resulted in
25 a shift, or partial shift, on their parts from equity
26 holdings to bond holdings, again you would not be unduly
27 disturbed?

28 MR. CAPON: I would be extremely happy.

29 MR. STEWART: So that this last item has to do
30 with the 20 per cent of dividends which you indicate --



1 you suggest -- has been payable by Canadian individuals,
2 and you assumed that these individuals would pay an
3 effective rate of 50 per cent on those dividends and that
4 that would produce some \$300,000,000.00 of revenue?

5 MR. CAPON: Mr. Stewart, that figure of
6 \$300,000,000.00 has little meaning. It is simply part of
7 the total here. The 50 per cent is a figure I brought
8 out of the hat.

9 What I have suggested in this brief is that
10 the Canadian individual shareholder should pay the same
11 tax as they pay on any other income.

12 I would say that it might be 50 per cent, or it
13 might be 20 per cent, or it might be 80 per cent; but I
14 believe they should pay the same tax on that income as
15 they pay on any other income; and if these suggestions
16 did cause a loss in government revenue which necessitated
17 any change in the income tax rate, I would simply say
18 "So be it". That is the way it should be done; but we
19 should only tax that income at the same rate as we tax
20 any other earned income.

21 MR. STEWART: And, of course, it is implicit
22 in your proposal that the 20 per cent dividend tax credit
23 would disappear?

24 MR. CAPON: It would be explicit.

25 MR. STEWART: On that basis I do not imagine
26 that we need spend much time, then, on Exhibit 22 which
27 we identified at the close of the hearing on April 24th,
28 but which I did not have a chance to discuss with you.

29 I think, perhaps, you have a copy of that
30 exhibit before you.



1 THE CHAIRMAN: Do we have Exhibit 22?

2 MR. STEWART: Yes, Mr. Chairman.

3 THE CHAIRMAN: Yes, I have it here.

4 MR. STEWART: The first page is taken from 1962
5 taxation statistics, and the second page contains some
6 computations -- calculations -- which were made arising
7 out of the first page.

8 Perhaps, for the purposes of the record, I could
9 explain just exactly what has been done on the second page.
10 You will observe that we are dealing on the second page
11 with individual taxpayers whose incomes are \$15,000.00
12 and higher.

13 Now, reading from page 1 it is possible to gain
14 a good deal of information about this particular group
15 of taxpayers who were selected quite arbitrarily but
16 because they might be the group which, in the first
17 instance, at any rate, would be the shareholders of
18 Canadian corporations.

19 On the second page the second column is headed
20 "Total Income Assessed", and that information is derived
21 from line 17 on page 1. Line 17 deals with total income
22 assessed, and the figure on page 2 of \$1,451,000,000.00 is
23 the total of the amounts set out in line 17 under the
24 columns on page 1 relating to incomes of \$15,000.00 and
25 up.

26 In other words, Mr. Chairman, you will observe
27 that in the \$15,000.00 to \$20,000.00 column there is an
28 amount in line 17 of \$459,000,000.00, and if you move to
29 the right and take the totals there of \$252,000,000.00,
30 \$475,000,000.00 and \$179,000,000.00, the \$160,000,000.00



1 and the \$24,000,000.00 which appear in the subsequent
2 column the total is \$1,459,000,000.00.

3 THE CHAIRMAN: Would I be right in presuming,
4 Mr. Stewart, that the 18½ refers to the half which pertains
5 to the taxpayers who have \$15,000.00 and up, and the 17
6 refers to those with less?

7 MR. STEWART: This appears to be the case.

8 In the next column on page 2 "Taxable Incomes"
9 are taken from line 24 on the first page, and the figure
10 of \$1,229,000.00 is arrived at in the same way.

11 The next column, headed "Taxable" is taken from
12 line 25 from the first page and again is arrived at by
13 following the same technique.

14 The next column, which has to do with dividends
15 received, is taken from line 10 on the first page, line
16 10 relating to dividend income of particular classes of
17 shareholders; and the final column "Number of Taxpayers"
18 is taken from line 1 on the first page, through the same
19 process of addition. You will observe from page 2 -- it
20 is rather interesting -- that this particular group of
21 taxpayers has 8 per cent of the income, 13 per cent of
22 the taxable income payable, 22 per cent of the total tax,
23 and receives 50 per cent of the dividends. It constitutes
24 1.3 per cent of the taxpayers in the country.

25 Now, then, Mr. Chairman, going on to page 2, we
26 tried to make some calculations here. We found that the
27 average rate of tax payable in this particular year,
28 which is 1960, by this particular group of taxpayers works
29 out at 27 per cent of their taxable income. That is
30 simply the percentage that the taxable is of the taxable



1 income. Then we assumed, as you will see, that the average
2 rate of tax is adjusted by eliminating the dividend tax
3 credit, which it seems possible to do, since we know the
4 amount of the dividends in column 4; and I am told that
5 the effective rate of tax, or the average rate of tax,
6 goes up from 27 per cent to 29.1 per cent through the
7 elimination of credit.

8 Then, to see where we would end up under Mr.
9 Capon's proposal we made some assumptions. We assumed,
10 first of all, that the dividend paid was increased by
11 four times, or to four times its present level. We
12 assumed that these particular taxpayers who, as you know
13 from this, receive 50 per cent of the total dividends,
14 did not, in order to continue to receive the dividend
15 distribution, have to borrow any funds to buy shares.
16 We also assumed that the dividend tax credit was
17 eliminated, and we assumed that on the extra amount of
18 dividends received the marginal tax rate would be 70 per
19 cent, which is a very high rate which now applies only to
20 people who are in receipt of incomes of \$125,000.00 and
21 more per annum. And on this assumption, which we thought
22 might be favourable to Mr. Capon's position here -- on
23 our estimate -- we found that the average rate of tax
24 payable would be increased to 79.2 per cent.

25 THE CHAIRMAN: Mr. Stewart, perhaps you had
26 better stop a bit there. I understand the assumptions
27 except (b) and (c). I don't know why you should have
28 done that.

29 MR. STEWART: Well, Mr. Chairman, the dividends
30 received by this group of taxpayers in 1962 totalled



1 \$155,000,000.00 as appears in column 4, and to deal with
2 it now under Mr. Capon's proposal, as I understand it,
3 this figure would be increased by three times that amount,
4 or \$465,000,000.00, roughly. We had to assume that this
5 additional amount would come into the market at some rate
6 and we didn't know what rate to take, but we felt that
7 if we took a rate of 70 per cent which, as I say,
8 under the present Act applies only to incomes in excess
9 of \$125,000.00, we would not then be taking an unduly low
10 rate. So it is on that basis, as I say, that, according
11 to the calculations that were made for me by our staff,
12 you end up with an average rate of tax of 39.2 per cent.

13 This is quite arbitrary, and I don't know if
14 Mr. Capon has ever had occasion before to consider it in
15 this way, and I wondered if he had any comments on it.

16 THE CHAIRMAN: Let me find out if the
17 Commissioners understand the reasons for your assumptions.

18 MR. STEWART: Yes.

19 It may be, Mr. Capon, that if we took the rate
20 of 40 per cent and contrasted that with the 50 per cent
21 rate which you assume at the bottom of page 26, your
22 answer may be what you suggested a few moments ago, namely,
23 that you have just taken an arbitrary rate and also that
24 the rate itself is not of great importance to you.

25 MR. CAPON: Mr. Chairman, all this is very
26 interesting but it isn't directly relative to the point
27 that I have been trying to make.

28 What I am seeking is the removal of a very
29 basic error in our whole tax structure. In removing that
30 very basic error the arithmetic isn't of any importance.



1 I feel that it may have an effect on government revenue,
2 for by removing the basic error you would increase
3 government revenue substantially by making products more
4 competitive, and by increasing our gross national profit
5 there would be a change in the basis for taxation. If,
6 in this particular calculation, the 50 per cent figure
7 I have used should be 10 per cent and, therefore, the
8 \$300,000,000.00 maybe is short \$220,000,000.00, I say I
9 couldn't care less, because it is not important. That is
10 offset by a number of other factors which I cannot
11 measure. My only concern is to try to remove a very basic
12 error in our whole Canadian fiscal system. My answer is
13 that I don't care what the rate has to be in order to
14 come up with the income of the amount that the government
15 needs.

16 MR. STEWART: I appreciate the force of what
17 you say, but just so that we can explore a little further
18 the implications of this on the revenue let me ask you
19 some supplemental questions.

20 We discussed in the spring what effect the
21 elimination of the corporate tax might have on corporate
22 profits, and my recollection is that it was agreed that
23 to the extent that the corporate tax is presently shifted
24 then the elimination of the tax might result in a
25 reduction of corporate profits, or income.

26 MR. CAPON: The total amount of the corporate
27 tax at the present time has to be shifted because
28 corporation can't pay a tax. A corporation by itself
29 is not able to pass on its tax bill.

30 MR. STEWART: Didn't you suggest in the spring --



1 and I think it is in the brief as well -- that this tax
2 is probably imposed in a way in which it is difficult to
3 determine what is paid by consumers, what is paid by wage
4 earners, what is paid by shareholders -- and I have
5 forgotten what the fourth is ---

6 MR. CAPON: The fourth is taken as a whole that
7 through lower employment there is a detrimental effect
8 on our gross national output.

9 MR. STEWART: I put it to you that when you
10 proceed in paragraph 44 on the basis that the corporate
11 income is \$3 billion, which is the same figure that you
12 have used in paragraph 43, you are assuming there in
13 paragraph 44 that the corporate tax has not been shifting
14 at all?

15 MR. CAPON: The corporate tax is paid by people
16 and will continue to be paid by people. To that extent
17 you can't shift it. The impact on different people may
18 vary, but you can't shift the total burden of taxation
19 if that burden is the amount that the government requires
20 in order to meet the costs of government.

21 Now, as I said in the spring, you have got
22 total stream of income and that total stream of income is
23 the gross national output, part of which goes to the wage
24 sector and part of which goes to the capital sector, and I
25 am saying that the government is going to tax that stream
26 of income in order to meet the costs of governing, and it
27 should tax this stream of income equitably right across
28 the board. Now, the \$3 billion will either flow through
29 and be taxed as dividend, or part of it may swing over
30 because it will be reflected in lower selling prices



1 which will increase the competitiveness of Canadian
2 products, increase employment in Canada and thus increase
3 the wage sector.

4 There are varying ways in which it will have an
5 effect, and we can't measure them.

6 MR. STEWART: We did discuss some of these
7 things specifically in the spring and I think that we
8 agreed -- and if I am wrong I am sure you will feel free
9 to say so -- that to the extent that the tax has been
10 shifted to consumers then if it is eliminated the prices
11 charged by capital may be reduced, by the same token, to
12 the extent to which it has been shifted; and if it is
13 eliminated the amounts payable to labour may increase;
14 and I think we went further and agreed that to the extent
15 that selling prices are reduced and to the extent that
16 wages are increased then corporate income may decline.

17 MR. CAPON: Certainly.

18 MR. STEWART: Then, if corporate income declines
19 does not this figure of \$3,000,000,000.00 in paragraph
20 43 get reduced when you come to paragraph 44?

21 MR. CAPON: If corporate tax declines then it
22 does so because other incomes increase.

23 You have the same amount of income which stems
24 from our gross national profit, and the government has
25 simply to tax this income as equitably as possible in
26 order to ensure two things: First of all, that we get
27 the maximum amount of gross national product; and,
28 secondly, that it be equitably distributed amongst the
29 people.

30 All I am suggesting is that there is a



1 fundamental error in our tax system. I call it the great
2 Canadian myth. It is the myth that corporations are
3 great big things which can pay this and pay that and pay
4 the other without any of us suffering. It was suggested
5 this morning that we should use the corporate entity in
6 order to make payments which do not cost the country
7 anything, and I believe these gentlemen really believe
8 that they are doing the right thing. It doesn't occur
9 to them that somebody has to pay. The company isn't
10 paying anything. That is the only point I am trying to
11 get across.

12 MR. STEWART: You are referring, of course, to
13 what was said during the previous presentation by the
14 Canadian Council for the Arts.

15 All I am trying to get at is what immediate
16 effect this is going to have on government revenue from
17 corporations and their shareholders taken as a group.

18 MR. CAPON: Mr. Stewart, if we started here and
19 now and went for six months we would not get any closer
20 than we are right now.

21 My answer to you is, of course, that the
22 government must levy whatever taxes are proper on the
23 total income of the people in order to get the revenue
24 it needs.

25 I am sure that these proposals will result in
26 substantial increase in gross national product and will
27 therefore increase the basic income and therefore result
28 in a total government income situation which will be
29 improved but we could, as I say, sit for sixty years and
30 still not be able to solve the problem.



1 MR. STEWART: Perhaps my problem may arise from
2 my misunderstanding of the words which appear in paragraph
3 44 "....a comparable corporate income of \$3,000, millions."
4 From what you have just said it may be that you were not
5 suggesting that corporate income would remain comparable.

6 MR. CAPON: I would say that at the moment it
7 would remain comparable because part of it is based on
8 the lower price.

9 If you remove the corporate tax the price
10 isn't going to drop by the amount of the tax reduction.
11 In the long run it will, but it isn't going to drop over
12 night, because the bulk of our prices in Canada are set
13 on the basis of world market prices, not the Canadian
14 situation. In the long run the prices will drop, but not
15 over night.

16 MR. STEWART: Well, I understand that and I
17 don't think I need pursue this particular line of
18 questioning any further.

19 I would now like to switch to the effect your
20 proposals might have on individual Canadian investors.
21 Before getting into specific questions on that score
22 could I confirm with you one or two related points? Do
23 I take it, then, that you would like to produce a complete
24 pay-out of corporate earnings by way of dividend?

25 MR. CAPON: With the limited exception of what
26 the country as a whole, through Parliament, decides is
27 a proper contingency reserve; and I would say that and I
28 have said it in the brief -- that you could allow up to
29 100 per cent of pay-out in Canada, with this contingency
30 reserve for adverse situations. That is similar to the



1 funds that the banks have under the Bank Act. I would
2 say that you could allow this to accumulate at a 50 per
3 cent tax rate -- that is what the tax rate is at present
4 -- but beyond that I believe that there should be a 100
5 per cent pay-out of income; and unless we do that we
6 frustrate the whole income process of the country.

7 MR. STEWART: Well, then, I suppose a particular
8 company, having established this maximum reserve that
9 you would permit, and having earnings of, let us say, a
10 million dollars, is faced with the relative merits of
11 paying out the whole \$1 million and going to the market
12 place to borrow, say, half of the amount back, on the
13 one hand; or, on the other hand, paying half out by way
14 of dividend and paying out the other half by way of
15 stock dividend to its shareholders. Would you treat
16 this stock dividend, or, by the same token, the issuance
17 of obligations representing half the earnings -- would
18 you treat that as pay-out, or regard it as retention of
19 earnings for the purpose of your system?

20 MR. CAPON: The moment a corporation makes \$1
21 million profit that means that from the total flow of
22 earnings you have allocated \$1 million to the capital
23 sector of that corporation. That is \$1 million of total
24 national income, and we are striving to tax our total
25 national income on an economical basis to meet the costs
26 of government. So I say at that point of time this
27 million dollars is a million dollars of income and it is
28 the shareholders' income. The corporation has nothing
29 to do with it. It is a thing. It is no more than that
30 table there. The million dollars at all times is the



1 property and the income of the shareholders and it should
2 be taxed as such.

3 If the corporation doesn't wish to pay it out
4 they are saying that the shareholders don't wish to pay
5 it out, because the shareholders are the corporation.
6 If shareholders allow management to make a decision to
7 issue that as stock dividend -- in other words, to take it
8 and reinvest it in the company -- that is fine; but if
9 they are converting income to capital they should be
10 taxed on that income as income, if we are going to have
11 equitable taxation of income.

12 MR. STEWART: Let us assume that no matter
13 which of those two courses is followed -- that is, the
14 cash distribution method or the stock dividend method --
15 the shareholder is taxable on the whole of the million
16 dollars?

17 MR. CAPON: Right.

18 MR. STEWART: As I understand your proposal
19 you would put a corporate tax at a substantial rate on
20 retained earnings?

21 MR. CAPON: Mm-hmmm.

22 MR. STEWART: All I am trying to find out is
23 whether you would treat the amount of any stock dividend,
24 or the amount involved in the issuance of debentures to
25 shareholders in part payment of that million dollars --
26 would you treat that as retention of earnings?

27 MR. CAPON: No, I would treat it as income.

28 If I gave the shareholder a document which said
29 he was entitled to the income, then that is his income,
30 and presumably there is transfer of income because income



1 can be transferred to someone else. If there is no such
2 issue of any capital instrument then it is retention of
3 earnings and subject to retention-of-earnings tax.

4 MR. STEWART: Would you not anticipate, under
5 your system, that if corporations have been plowing back
6 a substantial portion of their after-tax earnings they
7 would issue paper for a substantial proportion of
8 corporate income?

9 MR. CAPON: Corporations have been plowing back
10 earnings and have again built up another myth that this
11 process is essential to the continuance of their growth
12 in our economy. In fact, of course, this process does
13 not generate capital. The capital is a part of this
14 total flow of national income you talked about. The mere
15 fact that it is retained doesn't generate capital.

16 The capital is there, and if the income is paid
17 out to the shareholders it is available to them to
18 reinvest that capital.

19 This plowing back process is simply management
20 deciding that it is going to make the decision for the
21 shareholders.

22 I am by way of an outcast, perhaps, in my own
23 fraternity, because it is my view that management is not
24 necessarily in a better position to make decisions; and
25 I hold no brief for anyone making this decision.

26 MR. STEWART: This had been my impression, and
27 I had understood that what you hoped would follow under
28 your system would be that each individual shareholder
29 would receive in cash his aliquot portion of earnings
30 and that he would then be free himself to determine what



1 he would do with that aliquot portion, and he might choose
2 to reinvest it in the same company, or he might feel that
3 he could do better for himself elsewhere and would be
4 free to go elsewhere?

5 MR. CAPON: That is right.

6 MR. STEWART: Now, I am putting it to you that
7 if management can elect not to pay all the income out in
8 cash, so long as it provides its shareholders with enough
9 to pay their income tax, but can pay them partly in cash
10 and partly through some form of stock dividend, or other
11 deferred payment, then you are leaving management with
12 the same basic power that they now have?

13 MR. CAPON: Mr. Chairman, I am leaving management
14 with the same basic power but I am giving shareholders a
15 pretty heavy club to use on them, and if management use
16 that power incorrectly, for example, by taxing the
17 shareholders about 75 per cent of their income the share-
18 holders might hit them over the head just a little with
19 that club.

20 MR. STEWART: I am wondering whether your club
21 is really essentially any different from the one you now
22 have. Theoretically, if they don't agree with the
23 dividend policy of the company they can turf the directors
24 out and put other directors in. Under your plan if they
25 don't happen to agree with the stock dividend policy is
26 not the situation the same?

27 MR. CAPON: No; because under my plan I am doing
28 two things. Firstly, I am eliminating any inequities in
29 the treatment of income from this source. In other words,
30 I am eliminating what is, in effect, double taxation on



1 all income to shareholders; and, secondly, I am eliminating
2 some very powerful incentives to leave money in the
3 business in order to convert income into tax free capital
4 gains.

5 That is the thing I am trying to get at. At
6 the present time corporation tax builds in incentives to
7 tax free capital gain. I am not calling for a capital
8 gains tax, but I would redesign the law in respect of
9 what are presently classified as capital gains. I am
10 holding out for the right of the shareholder to convert
11 his income into tax free capital gain. If we eliminate
12 this and put a heavy tax on undistributed profit I believe
13 the shareholder would have a real club and would use it.

14 MR. STEWART: Let us come to the position of
15 the shareholder. Let us deal first of all with people
16 who are now shareholders in Canadian companies -- and I
17 am again thinking only of individuals as opposed to the
18 corporation.

19 We have a company which heretofore has paid
20 corporate tax, let us say, at the rate of 50 per cent on
21 its income and has paid 50 per cent of its after-tax
22 income by way of dividend. Let us suppose that the
23 shareholder of that company now finds that the character
24 of his share has changed to some extent through the
25 adoption of your system and that, instead of receiving
26 a dividend from this particular company of, say, \$1,000.00
27 he is now receiving a dividend of \$4,000.00; he is, on
28 the other hand, holding share in a company which does
29 not plow back any of its earnings, so that his prospects
30 of capital gain on this particular share are to some



1 extent reduced. Of course, the value of that share may
2 still increase for other reasons, but if it wants to
3 go to the market place and raise more equity capital the
4 value of the individual's share may be diluted to some
5 extent.

6 The question I would like to put to you, if
7 this reasoning is sound -- and if it isn't I am sure you
8 will say so -- the question I would like to put to you
9 is: Does the change in the character of this share --
10 the change in the character of the share to one which
11 has a higher dividend return but less prospect of capital
12 gain -- does that make the share on paper more attractive
13 to the shareholder than it was before?

14 MR. CAPON: I have to say that in framing that
15 question you made four or five statements which to me
16 are completely wrong. I am not sure I can get them all
17 in order, but may I say this: First of all, what I am
18 talking about is the necessity of giving an equitable
19 distribution of income to our people. I hold no brief
20 for those business which invest in order to make capital
21 gain. If it is done deliberately, seeking to make
22 capital gain, then I suspect it is income.

23 You say does this company that would out
24 \$1,000.00 and now pays out \$4,000.00 become less
25 attractive because it is not plowing anything back. Of
26 the difference of \$3,000.00, under the previous setup
27 \$2,000.00 was paid as tax anyway, so the only thing the
28 shareholder had was his \$1,000.00 that was probably not
29 plowed back.

30 Now, on this business of plowing back, the



1 great bulk of the internal cash flow of corporations does
2 not come from earnings plowed back at all; it comes from
3 depreciation and other reserves; and I am not saying
4 anything about disallowed depreciation reserves. I am
5 talking of depreciation and ammortization of capital.
6 That capital remains in the corporation available for
7 growth. That is ample capital for all corporations to
8 have for growth. This plow-back is the icing on the cake,
9 and I think that is where we are wrong in allowing our
10 corporations to put a foot of icing on a cake only two
11 inches high. I think it is the icing which ought to be
12 taxed, or should flow back to the shareholders.

13 THE CHAIRMAN: May I interrupt you at this
14 point? In this connection you must take into
15 consideration the dividend tax credit. The rate a person
16 is taxed under is higher in respect to corporate tax by
17 a substantial amount.

18 MR. STEWART: I wouldn't suggest that all the
19 extra \$3,000.00 is available to the shareholder to be
20 reinvested.

21 MR. CAPON: You say would it make it less
22 attractive. I don't think that is of any significance,
23 if all our companies are being treated equitably.

24 We are concerned only with the people of this
25 country, who invest their capital to earn a return, and
26 if we don't try to wipe off half the corporate profits
27 before they get to the shareholder then the investment
28 of capital will result in a proper return, and that
29 return must be taxed just as any other income is taxed --
30 equitably. If the situation is the same for all



1 companies then it doesn't make one more attractive than
2 another.

3 That is simply the basic investment situation,
4 that you earn income, and if that income is in excess of
5 your daily needs for life you allocate part of it as
6 capital. It is part of your income which is in excess
7 of your daily needs, and you proceed then to invest it
8 in order to earn a return.

9 MR. STEWART: But this would have more force, it
10 seems to me, if we were living in a self-contained
11 economy. One reason I asked the question was as to
12 whether the Canadian share would become more attractive
13 to the Canadian individual than it has been up until
14 now; but in this situation the individual Canadian
15 investor is going to be able to buy one type of share
16 in Canada and another type of share outside.

17 MR. CAPON: But this type of share will give
18 him a much higher return; he will be much better off.

19 If we were to try to spell out what is the
20 basic philosophy I rather think we could write a whole
21 book on it in order to properly explain it.

22 MR. STEWART: I hope what I have understood is
23 close to an understanding of it.

24 We know you said something about this during
25 the spring hearing, and the Commission found it almost
26 interesting, and I can understand that the Canadian
27 investor would be pleased on the basis that he is receiving
28 a higher income return on this type of share, but is he
29 going to be attracted by this type of share as he is by,
30 let us say, an American share which gives him a lower



1 rate of return but which may give him as an investor --
2 as a trader -- a higher prospect of ultimate capital
3 gain?

4 MR. CAPON: The ultimate capital gain will
5 result, as it has always resulted, not from the plowing
6 back of earnings but from sound management -- from sound
7 management -- good product, work content, improvement of
8 production marketing. That is what will give you capital
9 gain; and there is ample money in the companies in the
10 form of depreciation and other reserves to finance normal
11 growth needs.

12 All I am saying is that I believe the investor
13 should have the right to decide how to use his capital
14 beyond those limits, and those limits give management a
15 great deal of leeway.

16 In this case I think the Canadian shareholder
17 would soon recognize that he was infinitely better off
18 investing in Canada.

19 Unfortunately, all shareholders would understand
20 the same thing, and they are more long-headed than our
21 Canadian shareholders. They are prepared to pay higher
22 prices for our securities than we ourselves and that is
23 why they have bought them.

24 MR. STEWART: You referred earlier on to the
25 relative contributions of depreciation and amortization
26 on the one hand and retained profits on the other to
27 corporate funds available from expansion and so on. I
28 have before me a pamphlet entitled "The Federal Revenue
29 System -- Facts and Problems, 1961," which is a pamphlet
30 prepared for the Joint Economic Committee of Congress



1 of the United States. There are some tables on pages 32
2 and 33 which I think bear out what you have said in this
3 sense, that in 1959, when you come to consider the
4 sources of corporate funds, retained profits amounted to
5 \$9,100,000,000.00, and depreciation and ammortization to
6 \$21,500,000,000.00, so that the retained profits were
7 roughly 30 per cent of the total of the two. However,
8 this 30 per cent, I put it to you, is an important
9 factor to these companies, is it not?

10 MR. CAPON: No, Mr. Chairman, I do not believe
11 it is important to these companies, and I believe that
12 these companies would have no difficulty in acquiring
13 that amount of new capital for growth if that growth
14 was properly justified. I believe that the present
15 system causes, in many cases, the making of decisions which
16 are not properly justified simply because we don't have
17 to justify them -- and the "we" in there is management.

18 I am saying that the incentive of a manager is
19 to grow -- to become a president, or a vice-president --
20 bigger than John Doe. Now, the whole purpose is to be
21 bigger and we lose sight of this question of profitability.
22 We lose sight of it because there are too many incentives
23 such as the corporation tax to "not worry" about cost,
24 to "not worry" about the shareholder, to tell him that
25 it is in his interest to leave his money in so that he
26 can take it out as capital gain. That money is in there
27 and it ought to be taxed as income if it is earnings.

28 I don't say there is any question but that there
29 are good companies and there are efficient companies who
30 could get all the capital they needed for growth even



1 if they were to pay out as dividend all the earnings they
2 made.

3 In fact, as I said in the brief, I believe that
4 part of our situation today, whereby foreigners own most
5 of the country, is due to the fact that we have had low
6 dividend pay-out. We have had our shares priced on the
7 market at a lower ratio than they ought to be, and that
8 has made them a bargain. It has caused people to walk in
9 and offer prices well above the market to pick up these
10 shares, knowing that their poor market value is much
11 higher. The value is higher because the earnings are
12 there, but the value has been kept down in the market
13 place because management has not taken off what it should.

14 MR. STEWART: Are you suggesting in this case
15 that the general rate of dividend pay-out in Canada is
16 lower than it has been elsewhere?

17 MR. CAPON: Yes, it has been, certainly; that
18 is, the return on the market value of shares results in
19 a yield considerably lower than the yield in any other
20 foreign country.

21 THE CHAIRMAN: May I point out that the
22 evidence last week was to the effect that the ratio on
23 the price of shares in Canada was smaller than it was in
24 other countries, indicating that our stocks are priced
25 higher.

26 MR. CAPON: All right; then our dividends are
27 too low.

28 THE CHAIRMAN: No; price earnings was what
29 spoke of; and I would have thought the price-earnings
30 ratio would be much shorter if our dividends had been



1 unnaturally low; because certainly investment is not only
2 impressed by earnings; it is impressed by dividends.

3 MR. CAPON: Yes, that is right. If I may go
4 back through a number of specific company cases, Ogilvy
5 Flour is a good example where there was a take-over
6 attempt. The stock market price immediately rose by
7 50 per cent because the dividend pay-out rate rose. That
8 has been true of Canadian Oil Companies also, where it
9 was bought out by Shell. The price was originally one
10 figure and it was turned down and the offer was raised
11 by many millions over night, and the price, of course,
12 went away up. The price was too low because the dividend
13 pay-out was only a fraction of the earning power.

14 That has been true of a number of companies.
15 In total maybe it isn't so, but in specific instances
16 you can point to any number of them in the last ten years
17 where they have been taken over because of low dividend
18 pay-out, because of low market price.

19 MR. STEWART: If I may interject here, although
20 I appreciate that I am not here to give evidence, I think
21 the Commission should not jump to conclusions on the
22 relative price-earnings ratio in this country and
23 elsewhere. I think this is an interesting field of
24 study.

25 THE CHAIRMAN: In order to clarify this
26 particular point I have worked out an example which, it
27 strikes me, might be quite helpful so that all of us
28 understand the difference in the revenue of taxation in
29 the Capon proposal as against the present situation. Do
30 you think this would be helpful?



1 MR. STEWART: I think so.

2 THE CHAIRMAN: I have taken taxable corporate
3 income of \$4,000.00. I took \$4,000.00 because it
4 divides by four quite easily. I then, in the first
5 column, place the existing situation and in the second
6 column I have put the name "Capon". The \$4,000.00
7 applies in both columns. As things now stand I can take
8 \$2,000.00 and deduct it in the first column, and thus
9 I am left in the first column with \$2,000.00 and in the
10 second column with \$4,000.00.

11 Then I suggest that there would be a cash
12 dividend under existing circumstances of \$1,000.00; one-
13 half paid out and the rest accumulating. This seems to
14 be fairly common in Canada.

15 Moving over to the "Capon" side I have to make
16 some assumptions. So I say that there would be
17 \$2,000.00 paid out in cash and there would be a stock
18 dividend of \$2,000.00. We need about the same amount
19 -- a half for the stock dividend and a half in cash. It
20 may well be that if they continued this the shareholders
21 would fire them! I don't know, but they would probably
22 be prepared to accept it if it were cash.

23 I move down to the next column and I calculate
24 the tax on the shareholder; and I take an individual
25 tax rate of 30 per cent, seeing that that seems to be
26 what we are talking about -- with a fixed tax credit of
27 20 per cent; thus, I am left with 10 per cent; applying
28 the 10 per cent to this side I have calculated \$100.00
29 tax; and moving over and applying it here you have
30 \$1200.00. Therefore, I now would say the shareholder



1 would have received net of tax \$900.00 and he would have
2 the benefit of \$1,000.00 accumulation in the company,
3 as well as, perhaps, what is realizable eventually by
4 the sale of the shares and capital gain.

5 Under the "Capon" side there would be net cash
6 after tax of \$800.00, and there would be a stock dividend
7 of \$2,000.00. So, on the one hand, as things now stand,
8 he would have got \$900.00 cash and under this proposal
9 he would have got \$800.00; and under the proposal there
10 would be an accumulation represented by stock dividend
11 of \$2,000.00. Is that correct?

12 MR. CAPON: No; there is a missing link in
13 there. In the first case, he has also paid this \$2,000.00
14 paid for taxes which is the 50 per cent corporation tax;
15 and in the second case he pays out 30 per cent on
16 \$2,000.00 which is \$600.00; so that under the "Capon"
17 system he paid a lot less tax than he does under the
18 present system.

19 THE CHAIRMAN: I can see right away how total
20 taxes, as they now exist, would be about \$2100.00; but
21 what I said was the shareholder is left with \$900.00
22 after tax as things now stand.

23 MR. CAPON: In tax; but he is also left with ---

24 THE CHAIRMAN: He is left with \$1,000.00,
25 whereas he would be left with \$800.00 under your
26 proposal and \$2,000.00 cash.

27 MR. CAPON: Yes.

28 THE CHAIRMAN: That is what I said.

29 MR. CAPON: Yes; I wanted to be sure that we
30 recognized the total tax part.



1 THE CHAIRMAN: I recognize that the man is
2 better off by virtue of accumulating \$1,000.00 more
3 than in the other case.

4 MR. CAPON: Yes. I would say that is due
5 to inequity in the tax treatment of this form of income
6 as opposed to all other forms of income.

7 THE CHAIRMAN: The corporate tax as against
8 the individual tax.

9 MR. CAPON: Yes.

10 THE CHAIRMAN: Well, we will let Mr. Stewart
11 carry on.

12 MR. STEWART: Just dealing a little further
13 with this example, if we take the same case where the
14 corporation has only one class of stock outstanding,
15 then, under the existing system and under the "Capon"
16 system the shareholder still has the same proportion of
17 equity?

18 MR. CAPON: The share always has the same
19 proportion of what is left in the company, but the
20 equity of it may differ.

21 MR. STEWART: And as you indicated earlier, if,
22 under the present system, a large amount of tax is taken,
23 as you say, from the shareholder, as such, then under
24 your system, and assuming that the demands of the public
25 do not decrease, the amount of tax which is not taken
26 from the shareholder as such under your system is going
27 to be taken from him or from the populace as a whole in
28 some other way?

29 MR. CAPON: No; there we get right to the root
30 of it, because if that is true then you are saying that



1 the present system is an inequitable form of taxation
2 because it is getting more tax out of that part of
3 income than it should. Under my system I am saying
4 simply that the corporation is nothing; that income flows
5 through, and that under my system the shareholder in
6 fact pays less tax; and that under the present system
7 he is paying more than an equitable share.

8 MR. STEWART: I don't think that follows. There
9 are two methods of taxation, and one may be equitable, or
10 more equitable than another ---

11 MR. CAPON: One can't be "more equitable". One
12 can only be equitable or not.

13 MR. STEWART: Well, I would just like to reserve
14 judgment on that question on which is the equitable
15 system.

16 However, there is the possible argument from
17 the Chairman's example, that where there is 50 per cent
18 stock dividend your shareholder has \$800.00 of cash left;
19 and he has a stock dividend arrangement which reduces
20 obviously the amount of cash that he has left. Now, it
21 is your expectation, Mr. Capon, that these individual
22 shareholders will be induced to save and to invest in the
23 shares of the companies this amount of cash?

24 MR. CAPON: Mr. Stewart, I say that this income
25 belongs to those individuals and has always belonged to
26 those individuals, and as a manager I say that I have no
27 right to decide for them how to dispose of their income.
28 There are corporations which are efficient and make proper
29 decisions, and individuals may take their savings and
30 invest their savings in them, but surely the individuals



1 have the right to make that decision.

2 Under our present system we have taken away
3 from them a basic fundamental right of freedom, and one
4 of the most important freedoms we have -- to own property
5 and to dispose of property as we see fit; and by this tax
6 we have, in fact, put limits on this freedom, and I say
7 that this is a major step towards socialism.

8 MR. STEWART: Now, we do obviously require a
9 certain amount of savings and capital valuation in the
10 country, and some of that has been done recently through
11 corporations and through earnings. Can we reasonably
12 expect that at least the same amount will take place under
13 your system?

14 MR. CAPON: Of course we can. We can reasonably
15 expect a lot more will take place under my system because
16 I am trying to make the free capital system more attractive
17 by giving a proper return to the investors in free
18 capital.

19 MR. STEWART: Well, now, let us take the people
20 who are not presently, or to any extent, shareholders of
21 Canadian companies. I suppose one of your objectives is
22 to increase investment by Canadian individuals in shares
23 of Canadian companies. If your rules are put into effect
24 will these equities become sufficiently more attractive
25 to Canadians to induce them to divert part of their
26 after-tax income to investment of that nature?

27 MR. CAPON: In the first place, they will have
28 to offer an income which is more than most of those shares
29 do at the present time. Common stock yields at the
30 present time a price considerably below our government



1 bond yields; they are somewhat lower than industrial
2 bond yields; and there are fluctuations in yields such
3 as in the market on real property. I say that if you can
4 correct the basic situation so that our common stocks
5 offer an attractive yield then they will be attractive
6 to the average Canadian more so than government bonds
7 and a lot of other things.

8 I haven't tried to solve in here the problem
9 of how we might make use of our argument, and I believe
10 that is the biggest problem that faces not only Canada
11 but all of the world today; because what we have built
12 up is a system by which we are concentrating wealth and
13 not building up the base of capital, and if we continue
14 with this system there is only one answer, and that is
15 that the man in the street will not be in a position to
16 invest and he will move to expropriate. That is the
17 real point that I am trying to get at. I have not tried
18 to solve it in here. This is only the first step.

19 MR. STEWART: It seems to me, if I have
20 understood your reasoning in this brief, that the type of
21 person you would like to see as the shareholder of a
22 Canadian company is the person who is now in one of the
23 lower income groups and I confess to not being entirely
24 clear how you are going to persuade him away from
25 government bonds to the extent that he is now an investor
26 in that type of thing. I realize that by increasing
27 the return on equities you may feel that he may be more
28 disposed in their favour, but a lot of these people,
29 I take it, have no real savings at all at the moment.



1 MR. CAPON: Mr. Stewart, that is absolutely
2 correct and that is a thing that is bothering me. How-
3 ever, I think you have opened up another subject that
4 requires another ten volumes. I say that unless the
5 average Canadian can in fact look forward to getting back
6 a part, possibly a measure of his total income as a return
7 on capital, then we in Canada --- and this is equally true
8 of the United States or any other free enterprise country --
9 we can look forward only to ultimate socialism.

10 I say that because if you look at the last
11 ten years you will find that we have passed over a very
12 critical peak, a peak of employment. Five years ago we
13 had virtually no unemployment at a time when our total
14 national income had reached a high level. Today we have
15 between five and seven percent unemployment and our total
16 national income at a much higher level and there is
17 reason for that.

18 That reason is because technological
19 advances are enabling us to be much more productive with
20 less work. In fact we know you should make much more
21 per man hour and if we were prepared today to cut out
22 featherbedding, unnecessary employment, to cut out the
23 amount of money that we are spending to produce for
24 defence, which is not the defence products as such, adding
25 to our living standard, we could produce usable goods and
26 services that we require with 15 to 20% unemployment,
27 and we only have started to use our modern technology.

28 What I am saying to you is we will not
29 in ten, twenty, thirty years time have enough need for
30 work as such to provide our people with the amount of



1 income that they will need to support the living standards
2 they desire. We shall have the production, we shall be
3 capable of a gross national output that will give them
4 high living standards, but they cannot have high living
5 standards unless they have the income. The reason we
6 will have that productivity is because we shall have
7 invested capital to produce those goods, and unless that
8 capital can be owned by our people so that they can earn
9 the capital on income, then what do they have, they have
10 unemployment. And if there are enough people that have
11 unemployment, what are they going to do? They are going
12 to vote for socialism. Why shouldn't they? You would and
13 I would. So my concern is to get capital to the most of
14 the people. I am talking about ten, twenty, or thirty
15 years time. I am not talking about tomorrow. I don't
16 offer you a solution how we should do it, but I say unless
17 we do, we are in real trouble.

18 THE CHAIRMAN: There is a point I don't under-
19 stand here. Is this a good place to ask a question? It
20 is right on the subject, I think. I do not know how Mr.
21 Capon would propose to distribute very much more money
22 hence making the choice of his investors any wider than
23 it is now without some compulsion as to the form of distri-
24 bution. If distribution is to be settled by the directors,
25 as would be the case under the present corporation laws,
26 it would be my guess that with that kind of distribution
27 there would be sufficient cash to keep up with the general
28 level of cash distributions plus enough to see that share-
29 holders were generally comfortable with regard to paying
30 the additional personal taxes which would be involved in



1 this proposal, and beyond that I would suspect most of
2 the distribution would be in some other form of paper.

3 The reason I say that is that this is not too
4 different in method from what occurs with cooperatives,
5 because under the cooperatives laws the cooperatives are
6 required to distribute all that is left over annually, be
7 it what it may. They are required to pass it out. When
8 it comes to passing it out it doesn't go all in cash, it
9 goes at various levels of cash and paper. It would seem
10 to me therefore, that under a similar system with corpora-
11 tions it would be a rather simple treatment. It may well
12 be that it would be unfair over a period of time. I don't
13 see why. I would have thought if you are going to put a
14 choice in the hands of the individual shareholders, which
15 is the basic proposition put to us, remove the choice and
16 turn to the shareholder, you have given the shareholder
17 some spending money not just securities.

18 MR. CAPON: Mr. Chairman, if you accomplish
19 your purpose by the stock dividend route you are saying
20 you would in fact give him cash, pay his tax and then give
21 him stock dividends for the balance. Then I say to you
22 that is accomplishing the purpose. It is giving to him
23 the right to property which he may keep as his right and
24 do as he chooses.

25 You may say that that is his present share
26 at the present time, but in fact his present share goes
27 up or down for entirely different reasons. I would give
28 him the constant and unequivocal right to his income at
29 the point of time the income is earned. He can transfer
30 it or keep it. That is up to him. It would make available



1 to him a larger number of share units on which he would
2 have paid his tax.

3 THE CHAIRMAN: I can see the shares going
4 up for an awful lot of reasons. One element in there is
5 accumulation and accumulation keeps on going, so that he
6 gets more paper in respect to that accumulation. I would
7 not think it adds any more if he waits five years on the
8 accumulation and then gets a split. He has more money on
9 the split.

10 MR. CAPON: There is a difference on it
11 being done at the point of time. That is, I think,
12 important. The shareholder in fact has the right of
13 election on the Board of Directors and if our tax system
14 is so set up that the income of the company goes by right
15 to the shareholder automatically, whether it be through
16 the stock dividend route or in cash, I believe that the
17 shareholders would use a much greater measure of control
18 over management than they do at the present time. So as
19 long as there was not the opportunity for capital gain
20 through the present route of retained earnings, I believe
21 the shareholders would enjoy a much greater control
22 of the management. That is their right and that right I
23 don't wish to take away from them. I simply say the
24 present system is in error. I believe we should change
25 that error, but always leave the shareholder the right to
26 take his own actions.

27 THE CHAIRMAN: There are at least two or
28 three errors you see in the present system. One is dis-
29 connection of manager from owners. You are concerned about
30 that. Another is incentive to tax free income. Probably



1 there are others, but those two I can think of very
2 quickly.

3 MR. CAPON: The third is the incentive to
4 inefficiency which is very real.

5 THE CHAIRMAN: I didn't see that... I am
6 sorry. I see that is there, incentive to inefficiency.
7 Now, I don't think much changes. You are going to have
8 very high personal rates.

9 MR. CAPON: We are not going to have any
10 tax burden on the corporate income as such. In other
11 words, management will earn the profit before tax for the
12 shareholders instead of the profit after tax. I can tell
13 you from experience that many, many management decisions
14 are made knowing that it costs fifty cents on the dollar.
15 That is inefficiency that concerns me and concerns me a
16 great deal.

17 THE CHAIRMAN: Do you not regard the tax
18 on profits as a tax on corporations?

19 MR. CAPON: No, not a tax on the corporation.
20 As far as I am concerned, it is a tax on the individual,
21 because the corporation never owns the property. It
22 belongs to the shareholders at all times.

23 THE CHAIRMAN: Is it not a taxation that
24 will influence corporate behavior?

25 MR. CAPON: It will influence corporate
26 behavior to the extent it will cause the corporation to do
27 in equity what it should do, always make available to the
28 owner of the income his income.

29 COMMISSIONER PERRY: I am wondering if it
30 would. Haven't you left the institution in the position



1 COMMISSIONER PERRY: The facts which you
2 allege there, a high tax rate --- I am suggesting as long
3 as you leave in the tax rate you are going to have this
4 objective.

5 MR. CAPON: No.

6 COMMISSIONER PERRY: Show me.

7 MR. CAPON: In the first place corporation
8 management is measured for efficiency purposes on its
9 profit ability. In other words, we hold out profit as a
10 measure of our efficiency. That will continue to be. It
11 so happens that the profit on which we ought to be measured
12 is the profit before any tax.

13 COMMISSIONER PERRY: Presumably this applies
14 at the present time too.

15 MR. CAPON: It doesn't apply at the present
16 time, because corporations, as most of the writers have
17 said, treat corporation tax as an expense and they strive
18 for a net income after tax, because the people of Canada
19 have said "Let us make the corporations pay this share of
20 our tax revenue instead of us doing it, and then it won't
21 hurt us." The corporations as such have said "It is an
22 expense the same thing as anything else is an expense and
23 we will try and pass it on and recover any way we can, but
24 it is an expense." In fact management today accounts to
25 shareholders only for net after taxes. I say that if the
26 tax was eliminated management would account for the net
27 before tax which is what it should.

28 Now, it is perfectly clear that if manage-
29 ment did not then pay out profit it would be incurring a
30 75% tax on behalf of the shareholder because it is the



1 shareholder who owns that income and always earned it.
2 It has nothing whatever to do with the management and the
3 efficiency of the corporation. Now, if you say to me that
4 management would actually go out and spend money in order
5 to keep its profit low, I say to you as a manager I
6 cannot imagine anything more foolish, because I am the
7 measure of my profitability. I am not going to give it
8 away. I am not going to throw it away just because I don't
9 want to pay a shareholder 25¢ on the dollar.

10 COMMISSIONER PERRY: I am suggesting to you
11 that some tax pressure would be present simply because ---
12 unless you are thinking of distributing all your earnings
13 that what you have not distributed is going to be subject
14 to as high as 75% rate.

15 MR. CAPON: There is no reason for it to be
16 if you are willing to pay a stock dividend.

17 COMMISSIONER PERRY: That is another way out.

18 MR. CAPON: It is the obvious way out.

19 THE CHAIRMAN: Why don't you put your proposal
20 on that basis that the corporation shall be taxed as a
21 partnership, subject to the reservations you have spoken
22 of, rather than inflict a punitive tax on the undistributed
23 portion of the earnings?

24 MR. CAPON: Because I am trying always to
25 make one point. It is really a very simple point. The
26 corporation as such is nothing. At all times its property
27 and its income are the property and income

3 28 of its shareholders and to try and tax a
29 corporation is a fallacy and the result of that fallacy
30 is manifold increases in inefficiency. It is an expensive



1 tax to collect. It causes a whole lot of bad effects
2 particularly as it is directed to concentration of wealth.

3

4 THE CHAIRMAN: Consistent with that proposal,
5 a suitable tax is as a partnership is taxed.

6 MR. CAPON: That is right. The suitable tax
7 is simply taxation of that particular income, the same as
8 any other income is taxed.

9 THE CHAIRMAN: That is consistent with your
10 proposition that the corporation is only an entity.

11 MR. CAPON: That is all it is.

12 COMMISSIONER PERRY: What bothered me about
13 your proposition is that it makes the difference between
14 distributed as dividends and spending to reduce retained
15 income almost equal. There is not enough kept for your
16 distribution of dividends. In other words, either way
17 your profits are almost fully deducted for tax purposes.

18 MR. CAPON: What do you mean; the profits
19 are fully deducted for tax purposes? There isn't any tax.

20 COMMISSIONER PERRY: Fully deducted as
21 dividends.

22 MR. CAPON: They are not fully deducted.
23 There isn't any tax there.

24 COMMISSIONER PERRY: That is the same thing.

25 MR. CAPON: It is not the same thing, Mr.
26 Perry. Well, all right, there is taxation. What is taxable
27 is the retained earnings. What is taxable is the income
28 of the individual. If it is not received by him as income,
29 then I say you have got to collect your taxes at a high
30 rate because I am saying the only individual who can live



1 with income undistributed is the individual at a very high
2 tax rate.

3 COMMISSIONER PERRY: Why doesn't this affect
4 the corporate behavior just as much as the present corpo-
5 ration taxes?

6 MR. CAPON: Because corporate behavior is
7 based upon the public measurement of its efficiency and
8 that is profit. Under the present system corporate income
9 tax is an expense on business. We are not accountable for
10 it. It is just an operating expense, so what we try to do
11 is measure our profit in terms of profit after deductions
12 and the moment we remove that item we measure our
13 efficiency on the basis of profit before taxes and that is
14 our measure of profitability and any manager that tried to
15 minimize that figure needs his head read.

16 COMMISSIONER PERRY: I am not referring to
17 having you remove it. As far as I can see, you are
18 exaggerating it.

19 COMMISSIONER GRANT: Mr. Capon, it just
20 occurs to me that on your plan for distribution of corporate
21 profits to the shareholders, that very little is being
22 retained other than a reserve against depreciation, which
23 you would not change, and a general reserve which could
24 equally be the equivalent of 100% of the paid-up capital.
25 Then anything that might be retained after that would be
26 subject to a fairly high corporate tax.

27 Now, I wonder whether or not that type of
28 accounting might influence management's thinking directly
29 opposite to what we have been considering when we say that
30 the Government is paying half of this. Therefore, let us



1 make this expenditure. The Government is paying half.

2 I think, when you were here in April, you
3 used the example of "let us carpet this office from wall
4 to wall. The Government is paying half of it."

5 If we are going to have a 100% pay-out, after
6 the reserve is taken care of, it is going to benefit the
7 shareholders to that extent.

8 Would management be inclined to say: "Let
9 us forego repairs to this machine", or "Let this building
10 deteriorate because we will make a capital outlay. We
11 will replace the whole thing next year"; because if you
12 are going to make repairs you are going to charge it as
13 an expense. The shareholder is going to get that much
14 less.

15 That is a sort of reverse of the Government
16 paying. The shareholder is going to pay out there. Let
17 us ease the burden of the shareholder rather than place
18 the burden on the Government.

19 Do you think that would influence management?

20 MR. CAPON: Mr. Grant, it might. I think what
21 will under these circumstances always determine the
22 decision is simply the marketplace. Management will have
23 to sit down and look at the alternatives open to it and
24 see which will produce the most desirable result. I am
25 sure the most desirable result is the one that gives the
26 most profit, because my operation is being measured on
27 profit. Therefore, the marketplace will make the decision.

28 At the present time I am saying the decision
29 is influenced because the Government pays half of it. I
30 say, get that out of management's head. That is what



1 causes us to do wrong things. Let us let the marketplace
2 make the decision. Let us decide what is the right course
3 of action.

4 It may be "repair" or it may "no, don't
5 repair, build a new one," but that would be based upon the
6 measurement of the profitability of those two actions and
7 that is what it should be.

8 THE CHAIRMAN: I have got three or four more
9 questions. I want to hold them until Mr. Stewart gets
10 through. Let us let Mr. Stewart get on with the question-
11 ing.

12 MR. STEWART: Mr. Capon, I would like to go
13 back to the proposition you were making a few minutes ago
14 which is developed in your brief and which is to the
15 effect that technological developments are upon us and
16 that the effect of those is going to be steady and perhaps
17 increasing unemployment.

18 I wonder if this concern of yours --- which
19 only time will justify or show to be unjustified --- is any
20 different from the concern which may have been expressed
21 over a period of many years almost since the industrial
22 revolution?

23 I mean, have we not almost throughout all
24 that period been told from time to time that machines and
25 technology and automation are going to make it impossible
26 for us to keep our labour force at work?

27 MR. CAPON: Yes. We have been told that and
28 at the same time we have proven that we can increase
29 productivity sharply enough to take up that employment
30 under the machine system.



4
1 However, in the last twenty years things
2 have happened which have fundamentally changed that
3 situation. I will just name a couple of them. Today, for
4 example, we are talking of a 700,000,000 bushel wheat
5 crop which is far and away the largest wheat crop we have
6 produced in this country, and yet we have on the farms less
7 than one-third of the agricultural employees that we had
8 twenty years ago.

9 Secondly, we are now beginning, and only just
10 now beginning, to use automated data processing systems
11 which will enable us to reduce very substantially the
12 number of clerical workers which we use at the present
13 time.

14 We have only just begun to use all this new
15 type of technical knowledge.

16 In the last twenty years there has been more
17 new technical knowledge developed than in all the rest of
18 history and that should not surprise us, because there has
19 been more money spent on technical research in the last
20 twenty years than in all the rest of history.

21 What I am saying to you is: We are moving
22 into a change now which is infinitely greater in scope
23 than the change of the industrial revolution.

24 I am saying that already we can see an
25 indication in the fact we have 5 to 7% unemployment with
26 the highest gross national product we have ever had.

27 Certainly, only time will bear me out.
28 Unfortunately, if we have not studied the solution before
29 that time comes, we are in trouble.

30 MR. STEWART: Just so we can get your opinion



1 on this, may I draw your attention to Exhibit No. 21,
2 which was filed at the closing stages of our hearing in
3 April, which consists of three pages. The first is
4 headed "Wages, Salaries and Supplementary Labour Income,
5 Military Pay and Allowances as a Percentage of National
6 Income," and relates to Canada for the years 1926 to 1961,
7 and that shows a fluctuating but perhaps surprisingly
8 constant percentage during that period of some 35 years.

9 Page 2 relates to the United Kingdom and
10 covers the period from 1870 to 1950 and deals with wages
11 as a percentage of the home produce national income there,
12 and again it doesn't seem to vary very much from what,
13 in that case, is a figure of 40% throughout that period.

14 Then, page 3 refers to the United States
15 and to employee compensation as a percentage of national
16 income in that country during a series of periods from
17 1900 to 1957; and in that case, curiously enough, the
18 percentage, by and large, seems to be increasing.

19 MR. CAPON: Not since 1930.

20 MR. STEWART: No, not since 1930, during
21 which period it has remained fairly constant.

22 Have you any opinions on these figures and
23 the second question is: Do you consider that what is
24 occurring now is really such a remarkable change in tech-
25 nological or reflects such a remarkable change in techno-
26 logical development as to produce a situation which is
27 different, if you like in kind, from what we have
28 experienced up until now?

29 MR. CAPON: I believe what has happened and
30 what we are only just now beginning to take advantage of,



1 is so great a change that it will obsolete this as histori-
2 cal data.

3 However, what has happened all through those
4 years is what can continue to happen; increasing producti-
5 vity through employment of capital. You increase gross
6 national output and can therefore afford to pay higher
7 wages and salaries.

8 In other words, you are passing to the
9 employees a good sizeable chunk of the benefit that is in
10 fact earned by capital. You can continue that process as
11 you increase national income by increasing capital invest-
12 ment. You can continue to raise wage rates and give
13 employees the benefit of something which they have not
14 put out; give employees the benefit of capital which has
15 been put up by those who have saved and, as you yourself
16 said, you suspect most of the wage earners are not savers.
17 In other words, they are not investors.

18 Now, the technological change is such we
19 are becoming sobered now or we know how to be sobered up.

20 Now, when we can afford big increases in
21 wage payments, if you like, if you make that increase in
22 wage payments, one has increased the incentive to further
23 mechanization.

24 Now, that is being reflected in two things,
25 an increase in unemployment --- and there has been an
26 increase in our unemployment figures in spite of the fact
27 our gross national product has been going up --- also by
28 a reduction in the work week.

29 In many of those years the work week was up
30 to 80 to 85 hours. The work week is now down below 40



1 hours in Canada.

2 In other words, you are looking at this
3 percentage of national income which was earned at a time
4 when people were working twice as long. Once you get to
5 working below 40 hours a week, you find something that
6 should not surprise you; people start to look for two
7 jobs, because they do not want to sit at home doing
8 nothing.

9 We say we should retrain our labour, because
10 there are not going to be enough jobs as labourers. If you
11 retrain them, all you are doing is equipping them to carry
12 out two jobs. Those two jobs will be carried by the people
13 who are most capable.

14 If a man comes in to you for a job and he is
15 capable of doing it and more capable than the man who is
16 doing it now, you give it to him. You don't ask if he is
17 doing another job at the same time, so what I am saying
18 from here on in: If we try to solve our problems by
19 reducing the work week, all we are going to do is increase
20 what we call moonlighting, two jobs.

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1 I look for the future to continue what you would
2 call unemployment and what I will call leisure. Probably
3 the solving of them is a problem of distribution of
4 income. If you say to me "people must have jobs because
5 in this social age you work," then I say to you "Well,
6 that is fine. We will throw out our steam shovels and go
7 back to using hand shovels." We can make jobs, but the
8 point is that we cannot make productive jobs. That is a
9 technological change which is taking place.

10 MR. STEWART: But I take it that there are some
11 prospects that, through adjustment of wages, through
12 shortening of the working week, through increase in
13 productivity of labour during the period in which it is
14 implied, since this is a problem which emerges from
15 present technological development, it may be solved in
16 the same way substantially as corresponding developments
17 have been solved in the past?

18 MR. CAPON: To a point only; because if you
19 increase wage rates -- forgetting the inflationary
20 factor -- if you increase wage rates for a given unit of
21 work you increase the incentive to mechanize that
22 particular job. You come to the point where you literally
23 do not have the number of jobs required by the number of
24 people.

25 MR. STEWART: Well, we may be concerned that we
26 won't, but I suggest to you that this is a process that,
27 again, has been going on -- that if you increase,
28 willingly or unwillingly, wage rates then the employer
29 looks for machines or other ways of cutting down on the
30 labour content of what he produces?



1 MR. CAPON: But he never has had the kind of
2 machine that we now find available.

3 How would you explain our unemployment figures
4 with our gross national profit at an all time high?

5 MR. STEWART: Well, Mr. Capon, I am incapable of
6 explaining it and I am not going to attempt to do it; but
7 I put it to you that during this process, which has been
8 going on probably at various times through the ages, but,
9 at any rate, from the time of the industrial revolution,
10 there have been periods of relatively high unemployment,
11 and in the past these periods have been temporary and
12 the more normal level of employment, or unemployment,
13 has returned?

14 MR. CAPON: In the past, Mr. Stewart, these
15 periods of high unemployment have coincided with periods
16 of low gross national product. In other words, you have
17 had a co-efficient, and as you see this co-efficient is
18 different today.

19 THE CHAIRMAN: I think I am inclined to accept
20 that, and I guess we all agree with Mr. Capon, that high
21 employment and poor economy will not necessarily go
22 hand-in-hand in the future. Two years ago, in a report
23 for the Canadian Council, I stated that so far as I can
24 see we are moving into an area of great wealth and into
25 an area of increased unemployment. It seems to me at
26 least that unemployment is a serious challenge.

27 MR. CAPON: Absolutely.

28 THE CHAIRMAN: But I don't think we are going
29 to affect unemployment by cutting down on automation.
30 We are going to cure it by finding other things to do.



1 I don't know that what you have got here is a means of
2 curing it. It may be ---

3 MR. CAPON: This isn't the cure by any means.
4 This is simply one relatively small step, but, I believe,
5 a very necessary step. I think it is a very necessary
6 step because the incentive engendered by corporation tax
7 are pushing us away from solving this very basic problem;
8 and that is why I am hitting corporation tax. But I am
9 not beginning to say that this is the solution. This
10 is one very small step

11 MR. STEWART: Well, switching to a different
12 point, in paragraph 17 of your brief, on page 9, you
13 criticize the progressiveness of personal income tax
14 rate in Canada at the present time. You have also
15 elsewhere in the brief, or in what you have said this
16 morning, suggested that the corporate rate on retained
17 earnings should be at approximately the 75 per cent level.
18 Could you indicate to the Commission generally what
19 range of personal income tax rates you would contemplate
20 for this country under your proposal?

21 MR. CAPON: Well, Mr. Chairman, I didn't attempt
22 to get into the personal income tax rates, and quite
23 deliberately.

24 Personally I believe that equity requires only
25 that income be taxed at a rate, and that that rate be
26 applied to the total income in order to produce the
27 government requirements. In other words, I see no excuse
28 for a graduated personal tax rate, other than the excuse
29 used by the politician -- "Let's soak the rich". A
30 graduated tax rate is only "soaking the rich".



1 I would like to quote a short paragraph from a
2 book written over a hundred years ago on this very point:

3 "Sometimes the law defends
4 plunder and participates in it.
5 Thus the beneficiaries are spared
6 the shame, danger, and penalties
7 which their actions would otherwise
8 involve. Sometimes the law places
9 the whole apparatus of judges, courts,
10 prisons, and gendarmes at the service
11 of the plunderers, and treats them --
12 when he defends himself -- as a
13 criminal.

14 But how is this legal plunder
15 to be identified? Quite simply. Hence
16 the law takes from some person
17 what belongs to them and gives it
18 to other persons to whom it does
19 not belong. Hence the law benefits
20 one citizen at the expense of another
21 by doing what the citizen himself
22 can't do without committing a crime."

23 That is obviously simple, and I think it is completely
24 true.

25 MR. STEWART: Perhaps you could tell us what
26 you are reading from?

27 MR. CAPON: I am reading from a book "The Law",
28 written by Frederic Bastiat in France at the time when
29 France was approaching its second revolution.

30 MR. STEWART: When you mention the 75 per cent



1 rate, would it follow that you contemplated a marginal
2 individual rate of 75 per cent?

3 MR. CAPON: No, it wouldn't follow at all.
4 What I had in mind was that if we are going to develop
5 a system by which we recognize the fundamental truths
6 that the profits earned through the medium of corporations
7 are always the income of the owners of the corporation,
8 it follows then that that income should be taxed as
9 income, and the most efficient way to do that is to see
10 that it gets paid to the individual because it is theirs,
11 and let them use it as they will, having paid the tax
12 on it; and if we set up such a system then we obviously
13 have to see to it that the people just don't leave their
14 income there. Therefore, you must use whatever mechanism
15 is necessary to ensure that the income flows to the
16 individual and is taxed equitably; so I used the 75 per
17 cent figure because I thought that was a big enough club
18 for the shareholders to see to it that management pays
19 out to the shareholders what belongs to them.

20 MR. STEWART: I simply point out that if the
21 shareholder has an effective rate as high as the 75 per cent
22 rate it might be well for him to leave the income in.

23 MR. CAPON: I recognize that, but I say in the
24 same paragraph 17 that "....the steep graduation of
25 personal income tax rate is defensible only on the basis
26 of political expediency..." and 75 per cent isn't steep,
27 it is precipitous; and it certainly at the present time
28 is legal plunder.

29 MR. STEWART: In order to ensure that there is
30 a flow of revenue to the administration would you



1 contemplate that the corporation, when it distributes
2 income to the shareholder, would be required to withhold
3 tax at a particular rate, which tax would be credited to
4 the shareholder's account?

5 MR. CAPON: For practical purposes I should say
6 we would have a withholding tax. I dislike a withholding
7 tax in principle, and I am an idealist when I say that
8 I think people should have to pay their own tax so that
9 they can recognize how much they are paying, but I see
10 that we could get into a beautiful socialistic mess
11 with the company handing it out and it would never
12 be got from the people, if they had the right to get
13 hold of the money in the first place. They would collect
14 their money and, in some cases, might beat it out of the
15 country. So since we have got our government
16 expenditures at that level then for practical purposes
17 I would have to swallow my idealism and accept a with-
18 holding tax, and it would be at whatever rate was
19 appropriate.

20 MR. STEWART: Mr. Chairman, any other questions
21 that I would be putting to Mr. Capon would involve a
22 comparison of his proposal with other methods of taxing
23 income which is presently got through corporations and
24 I don't know that these questions are really necessary.
25 Having regard to the time limit it may be that I should
26 desist and that you and the other Commissioners should
27 ask whatever questions you have in mind.

28 THE CHAIRMAN: Let us see how we can get on.
29 I have probably ten or fifteen questions myself, and I
30 suspect that the other Commissioners may have more than



1 that. Suppose we carry on and the Commissioners can
2 address their questions and we can probably get through
3 with that.

4 Are you in a hurry to get lunch, Mr. Capon?

5 MR. CAPON: No, Mr. Chairman.

6 COMMISSIONER BEAUVAIS: Mr. Capon, do you think
7 that if your proposal is accepted part of the profits
8 would be shifted from the shareholders to labour?

9 MR. CAPON: I would think there would be a
10 movement in that direction, and that the adoption of
11 so great a change would necessarily cause profits to
12 increase very materially over what we have come to look
13 upon as the normal level; and it would take time for
14 this to be adjusted. There might be a reduction in
15 prices; there could be some increase in dividends; but
16 this readjustment is a major readjustment, and that is
17 why I had a tough time at the end of the brief. I
18 thought that this was something that could be done over
19 a period of years; in other words that we would be making
20 the readjustment involved and doing 10 per cent this year
21 and the next year and so on. But some part of it, I
22 think, would get into labour.

23 COMMISSIONER BEAUVAIS: Now, my next question
24 is that I am worried about the case of the minority
25 shareholders having 20 per cent of a company and having
26 nothing to pay his income tax. You say the profits
27 might be distributed either on a cash basis or a 100
28 per cent stock dividend, and the minority shareholders
29 would have to pay income tax without having capital; and
30 if it is a private corporation, or a corporation with



1 stocks not distributed under the stock exchange he won't
2 be able to sell some of the stock to pay his income
3 tax.

4 MR. CAPON: That is correct. I think I would
5 say that this comes back to the freedom of the individual,
6 Mr. Beauvais, to choose to invest in a company in which,
7 by its nature, he is going to be a minority shareholder.
8 In other words, if he invests in a controlled corporation
9 he does so realizing that he does not have an effective
10 voice. That is simply the fact of it, Mr. Beauvais.

11 COMMISSIONER BEAUVAIS: Yes; but he might
12 inherit the shares without investing in the company
13 himself.

14 MR. CAPON: And if the corporation is a
15 profitable corporation then those shares will have a
16 value; there is always the value.

17 COMMISSIONER BEAUVAIS: Yes; but the value of
18 a minority share is very hard to realize.

19 MR. CAPON: I agree it is; and that is one of
20 the problems of the investor who elects to put his money
21 into such a situation. He makes the decision not
22 necessarily for himself but also for those to whom his
23 property falls in the event of his death.

24 THE CHAIRMAN: Mr. Beauvais is trying to
25 distinguish between the present position and the position
26 under your system.

27 MR. CAPON: That is right; I don't think there
28 is any distinction.

29 COMMISSIONER BEAUVAIS: But I am worrying about
30 him having to pay his income tax and he cannot realize



1 it, and it may be that this man has no other income, or
2 no cash. How can you solve this problem?

3 MR. CAPON: I wouldn't solve his problem. I
4 would think he would have to sell his share.

5 COMMISSIONER BEAUVAIS: If he can.

6 MR. CAPON: If he can; and if he is getting a
7 dividend that means it is a profitable company.

8 COMMISSIONER BEAUVAIS: It might be, but he
9 might not have any market for the shares.

10 MR. CAPON: That is right.

11 COMMISSIONER BEAUVAIS: But he would have to pay
12 his income tax.

13 MR. CAPON: Certainly if he couldn't raise the
14 cash he would have no alternative but to sell the shares.

15 I don't think the situation is really different
16 from the present situation where he doesn't get any
17 dividend anyway.

18 COMMISSIONER BEAUVAIS: But he does not have
19 to pay income tax if he has no dividend.

20 THE CHAIRMAN: And I take it he stands
21 ultimately to make a capital gain.

22 MR. CAPON: But he hasn't got any value for
23 his share so he can't make a capital gain.

24 COMMISSIONER BEAUVAIS: But you realize it is
25 a very serious situation in many, many cases?

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MR. CAPON: I realize this, Mr. Beauvais. However, I believe that management in such situations today are more aware of the effect of minority shareholders.

Under certain circumstances minority shareholders are very carefully protected by our courts under the Income Tax Act. For example, in the event of a compromise arrangement, the court will allow minority shareholders to vote as a class.

COMMISSIONER BEAUVAIS: Oh, yes.

MR. CAPON: So it may be that we can get into a situation where it is necessary for the minority shareholders to have access to the courts in the event of unfair treatment, but I don't believe that is a tax problem.

THE CHAIRMAN: May I interrupt just to make this clear. Are you implying to Mr. Beauvais that there would be no greater disability than exists at the present time?

MR. CAPON: That is right. In the total property situation the difference is the man who gets the stock dividend and therefore increases a tax liability which he did not have before, but in fact he is getting more property rights than he got before. The problem is in the marketability of the property right.

COMMISSIONER BEAUVAIS: I do think in such an event the Act should provide that he gets sufficient capital to pay his income taxes.



1 MR. CAPON: Mr. Beauvais, let us say in that
2 case we are now getting into the Income Tax Act rather
3 than the Corporation Tax Act because I have already elimi-
4 nated the Corporation Tax Act.

5 THE CHAIRMAN: I think, Mr. Capon, you may
6 require some new guide on company law.

7 COMMISSIONER BEAUVAIS: I have another point.
8 You said that depreciation is sufficient to finance normal
9 growth needs.

10 MR. CAPON: A very substantial part, not all.

11 COMMISSIONER BEAUVAIS: Because you realize,
12 Mr. Capon, depreciation is taken on a value that is not
13 realistic today.

14 If you take depreciation money for growth,
15 you won't have anything left to replace machinery or to
16 improve machinery or the plant.

17 MR. CAPON: Mr. Beauvais, our experience has
18 been that we very seldom replace as such. If we have to
19 replace, we usually find the technological changes are
20 such that we can replace the capacity at lower cost than
21 that of the original plant. This is not always true, but
22 we find that this is tending to be the truth.

23 But, at any point of time the depreciation
24 route provides you with a cash flow for growth. I agree
25 with you that at some time maybe there has to be an
26 accounting, but that time is always deferred into the
27 future because as you spend your current depreciation money
28 on growth, it in turn becomes depreciated and you increase
29 the cash flow.

30 What I tried to say to you was: According



1 to the U.S. figures that Mr. Stewart read, two-thirds of
2 the cash flow comes from depreciation and only one-third
3 from retained earnings.

4 At some time I have seen the Canadian
5 figures that looked closer to three-quarters and one-
6 quarter. I am just going on recollection. However, the
7 depreciation provision is by far the bigger part of the
8 cash flow.

9 I do not say that would look after all
10 growth. What I said is that would look after a great part
11 of growth and that I feel that our corporations should be
12 prepared to go to the marketplace for capital for the
13 plants.

14 COMMISSIONER BEAUVAIS: They do that at the
15 present time, though.

16 MR. CAPON: I think you will find, Mr.
17 Beauvais, that less than 5% of our growth in the last 20
18 years has been financed equity securities, if you exclude
19 the banks, which have a rather favourable system, and the
20 utility companies which have a different system.

21 THE CHAIRMAN: Less than 5% for growth.

22 MR. CAPON: I believe that.

23 COMMISSIONER BEAUVAIS: In equity, in bonds?

24 MR. CAPON: No. I think in any case any
25 company borrowing money by bonds, the reason for that is
26 by doing so they can get a tax saving.

27 COMMISSIONER BEAUVAIS: If you proceed by
28 dividends, you avoid income taxes or growth of equity.

29 MR. CAPON: : Fine, if you proceed that way,
30 you do. You leave it to the shareholders to control the



1 company on this stock dividend route.

2 THE CHAIRMAN: Have you finished, Mr. Beau-
3 vais?

4 COMMISSIONER BEAUVAIS: Yes.

5 COMMISSIONER GRANT: I am a little bit con-
6 cerned, Mr. Capon, really about where small business would
7 fit in this plan. I can see where a large business that is
8 well established and, let us say for instance, has its
9 stock available through purchase from the stock exchange
10 and so on to make a transfer, but where a person has
11 started a business with very small capital and his depre-
12 ciation reserve is eliminated and his general reserve,
13 which he can set aside, would be small, well, he wants to
14 expand.

15 I suppose he cannot very well, I would
16 think --- I am advancing this argument. I am putting my
17 own thoughts forward. I wouldn't think he could expand
18 very rapidly by making a public issue of stock because it
19 would not be attractive. Nobody would be interested in
20 underwriting it, because they would say nobody would be
21 interested in buying it, unless his earnings might warrant
22 a market.

23 Therefore, he would be called upon to borrow
24 from existing type institutions, such as we have now or
25 through perhaps a system envisaged by some central organi-
26 zation such as N.D.B.

27 MR. CAPON: Mr. Grant, I do not think the
28 tax change I am proposing really has any great significant
29 effect. I believe the situation for the small man would
30 really be no different to the present situation, except



1 to the extent that he may be getting some kind of subsidy
2 under the present situation through the corporation tax
3 system.

4 Now, what I say is that if he is getting a
5 subsidy, let us recognize that and pay him a subsidy as
6 such. Let us face the fact, know what we are doing and not
7 try to hide it behind some screen.

8 I do not think my proposals would really
9 change his situation. The small businessman has that
10 problem. There has been an attempt by some of our private
11 organizations, such as our own company, to provide capital
12 for such undertakings.

13 In the United States, my parent company has
14 formed a department of the company for small business, to
15 look for opportunities where they can put money into small
16 businesses, which are built around one, two or three
17 individuals who have a particular ability, because they
18 feel that by developing that particular ability they can
19 own a part of a worthwhile enterprise.

20 They realize that the enterprise that will
21 really provide growth is based upon people and outstanding
22 people and if they can find outstanding people who want
23 to have their own companies, but do not have enough
24 capital, and who are prepared to accept partners, then they
25 will put money out of this new department into these
26 endeavours in the hope that their assessment of the
27 individual will be such that there will be a profit.

28 THE CHAIRMAN: This is not built into your
29 system?

30 MR. CAPON: No, sir.



1 COMMISSIONER GRANT: Just one more observa-
2 tion there. Your plan is predicated in large measure
3 upon one important fact; namely that more shares are going
4 to be available to more people, which is going to give
5 them more of a stake in the capital of the company. That
6 could, as I said in my first question, be undertaken.
7 It can be readily seen that it could be good for larger
8 companies whose shares are attractive.

9 I still cannot see how the small businessman
10 is going to be able to make his shares attractive and
11 finance all his expansion through equity financing.

12 MR. CAPON: You are into a subject there,
13 Mr. Grant, where I am afraid I cannot really provide the
14 answer unless you are prepared to spend two or three
15 hours with me.

16 There is a book on the subject, "The New
17 Capitalist" written by Adler and Kelso, showing, if you
18 wish, the capitalist manifesto, which is the answer to the
19 Communist manifesto.

20 This was written some ten years ago, I
21 believe, by Adler and Kelso.

22 The New Capitalist is just really a small
23 book which offers a solution as to how you can get equity
24 securities into the hands of workers. That is their solu-
25 tion, but I do not say that I believe it 100%. It is
26 simply a solution.

27 All I am saying to you is that I believe
28 this is a problem we can solve if we want to once admit
29 we have a problem. We have not yet admitted that.

30 THE CHAIRMAN: I want to run down a few



1 points of your proposals, Mr. Capon, to see I fully under-
2 stand them.

3 You talk about a tax on undistributed income
4 in order to force distribution. I must say I cannot quite
5 see a tax system operate that way. I think I said this
6 before. I still do not know why we don't simply take all
7 income to be distributed as is the case in a partnership.
8 Would that not work with your system equally as well?

9 MR. CAPON: From a tax point of view, yes.
10 From the point of view of getting to the shareholder the
11 income that is in fact his, in order to give him discre-
12 tion to decide how to use that income, no.

13 That really is the problem that concerns me.
14 I feel that the shareholder ought to get his income and
15 make his decision. I agree that is substantially done.

16 THE CHAIRMAN: I follow your point. What
17 you are trying to do is use the tax laws to cause companies
18 to hand out money. I think the tax laws should be used
19 primarily to collect taxes and for other purposes too, but
20 how far does one go to serve your purpose?

21 MR. CAPON: Unfortunately, you know that I
22 agree with you on that point.

23 THE CHAIRMAN: With regard to equity, on
24 which you dwelled for some considerable length, I would
25 like to put this thought to you and ask you: Where lies
26 equity?

27 We have a company, say, which earns
28 \$100,000.00 which is earned by 100 people, so that each
29 have a \$1,000.00 interest in the total earnings, assuming
30 there is no other income.



1 Therefore, they are not taxable but the
2 company with \$100,000.00 would under the existing system
3 be taxed by perhaps \$40,000.00.

4 Where is equity best served: By collecting
5 the \$40,000.00 in the case of that enterprise or collect-
6 ing no taxes in the case of that enterprise?

7 In other words, you propose there should be
8 no taxes collected.

9 MR. CAPON: There should be no taxes collec-
10 ted because that \$100,000.00 in fact is always the income
11 of those individuals and if, as a matter of national
12 policy, we have decided that individuals with \$1,000.00
13 income do not pay taxes, then we have no right to collect
14 taxes from them.

15 THE CHAIRMAN: That is the greatest difficulty
16 I have in going along with you. It seems to me that that
17 enterprise, even though I recognize that it is owned by a
18 lot of individuals incurs services from the Government. I
19 would have thought that enterprise as an enterprise there-
20 fore, should contribute to the cost of Government. You
21 say the enterprise is not anything at all.

22 MR. CAPON: The enterprise is nothing. It
23 is just a conduit to get income from one place to another.

24 THE CHAIRMAN: I guess I cannot go further.

25 In Paragraph 31 you refer to the high cost of
26 assessment and the best trained professional people advising
27 business on taxation. You suggest that it is quite an un-
28 attractive exercise and should be eliminated by the provi-
29 sion of a system which does not call for that.

30 I would have thought your system will have



1 as great a need for the measurement of income as will the
2 system we have got. It is true it is not going to be
3 taxing companies, but one has got to measure income and
4 people are concerned with the measurement of income.

5 MR. CAPON: Mr. Chairman, as far as I am
6 concerned, as a member of the accounting profession in
7 Canada, I would place that responsibility on the accounting
8 profession.

9 I would make the auditor responsible for the
10 certification of income. I would be prepared to leave
11 with them the certification of income, recognizing that
12 accounting principles allow certain flexibility on specific
13 items, but fundamentally I would place upon the accounting
14 profession the responsibility for deciding for the country
15 as a whole what is income and what is not income.

16 THE CHAIRMAN: As you well know, that
17 responsibility has been so placed in the past during war-
18 time as an emergency measure. Accountants would not cheer-
19 fully again assume such responsibility.

20 MR. CAPON: I realize they will not cheer-
21 fully accept it. It would have to be imposed on them.
22 As a member of the profession, I am prepared to accept that.

23 THE CHAIRMAN: I am not prepared to accept
24 it as a member of the profession. It puts accountants in
25 the position of being tax-collectors.

26 MR. STEWART: Here again, there is no dif-
27 ference between Mr. Capon's proposed system and the present
28 system.

29 THE CHAIRMAN: Mr. Capon, I would like an
30 answer to my question which is that under your proposal



1 you suggest we can eliminate considerable effort and I do
2 not think because you make accountants responsible you are
3 eliminating all the efforts.

4 MR. CAPON: Mr. Chairman, I think we do
5 through the Income Tax Act. I think we can eliminate
6 between 75 and 80% of the complexities of both sections
7 dealing with the calculation of taxes on corporate income.
8 That is my personal conclusion. I realize everybody does
9 not agree.

10 THE CHAIRMAN: I would suggest there are many
11 more sections you have not begun to consider, before putt-
12 ing a new system, be it yours or somebody else's. However,
13 yours may be more simple; I don't know.

14 Now, the next question I wished to ask you
15 is: You say yields are low in Canada which means the
16 prices are high. You suggest that if more profit emerged,
17 the yield would increase. That, I think, does not follow
18 whatsoever.

19 If more profits of the companies emerge, it
20 may simply mean that our prices of stocks will go higher
21 and the yields will stay the same.

22 As a matter of fact, that would be what I
23 would be inclined to believe would result.

24 MR. CAPON: Unfortunately, the price struc-
25 ture in Canada --- the stock price structure is affected
26 more by the scarcity of available stocks than by any other
27 factor and the reason for our present price structure is
28 that in the nation to our total economic activity, we have
29 far less equity securities available for investors than
30 does a normal balanced country.



1 That has partly to do with the very high
2 proportion of our equity securities that are owned by
3 foreigners. It is partly due to the fact that more modern
4 industries, the newer industries are almost all subsidiaries
5 and largely wholly-owned subsidiaries of foreign corpora-
6 tions, which make no shares available.

7 The result is that for those individuals who
8 want to buy high-grade Canadian common stock, there is a
9 very little quantity available; therefore there is a
10 scarcity.

11 I think if we change the dividend payout,
12 we will necessarily make the yield better, because I do
13 not believe that prices would go up to that extent. I
14 think price has some regard to the equity value of the
15 company itself, but unfortunately the present Canadian
16 situation is based upon scarcity of value more than any
17 other factor.

18 THE CHAIRMAN: I have recently had occasion
19 to prepare the price earning ratio of utilities in Canada
20 and the States. There was no large difference, I might
21 say, in that particular class.

22 MR. CAPON: No, not that class.

23 THE CHAIRMAN: I am very much interested in
24 your statement that your own experience is that replace-
25 ment of plant costs to you now, due to technological
26 improvements, is at a lower cost than the original plant.
27 That is the first time I have heard that statement.

28 MR. CAPON: The cost per unit of output.
29 In other words, it costs us less today to buy a piece of
30 machinery for our Kingston plant to spin a pound of nylon



1 than it cost us when we built the plant in 1940-1941.

2 THE CHAIRMAN: We had just heard the very
3 opposite, that the cost of plant per worker had increased
4 tremendously.

5 MR. CAPON: That is right. We have far
6 fewer workers per pound of output.

7 THE CHAIRMAN: I do not think I would like
8 to let your remark pass that there is no excuse for
9 graduated personal income rate and that it is merely
10 political expediency; or that the thought that this
11 Commission in any way concurred in such a statement.

12 From my point of view, one must be concerned
13 with total taxation in Canada, and at the present time I
14 do not know whether taxation in Canada is progressive or
15 regressive or in fact proportionate.

16 I would have thought the best thing would be
17 to have variations as between progressive and regressive
18 as in personal income tax and they should probably be
19 adjusted so as to achieve the desired result with regard
20 to graduation. If you have any further comment on this,
21 this is the time to make it.

22 MR. CAPON: Mr. Chairman, I stand by the
23 original comment.

24 THE CHAIRMAN: I have completed my questions,
25 Mr. Stewart. I wonder if it will be necessary to come
26 back this afternoon to have some more questions.

27 MR. STEWART: I do not think that will be
28 necessary, Mr. Chairman. If I could have two or three
29 minutes, I think I could cover this field.

30 THE CHAIRMAN: Mr. Capon, would it be a great



1 imposition on you if we were to run down to 25 minutes
2 past one?

3 MR. CAPON: Not in the least.

4 MR. STEWART: Mr. Capon, there are various
5 reasons expressed in your brief for the proposal that you
6 make about corporation tax. One is, of course, that under
7 the present system there is some waste and extravagance
8 which concerns you.

9 If we were to reduce the rate of corporation
10 tax and substitute some other taxation, possibly indirect
11 taxation, to take up the slack, would this be appellative
12 as far as that particular aspect of the matter is concerned?

13 MR. CAPON: It would be appellative. In
14 other words, the lower corporation income tax rate,
15 the less incentive to inefficiency.

16 MR. STEWART: It would not solve your basic
17 problem.

18 MR. CAPON: My basic problem is that a
19 corporation as such cannot pay taxes. I feel we should tax
20 people.

21 MR. STEWART: Suppose we wanted to tackle
22 another problem about which you have expressed concern;
23 namely that corporations are using retained earnings in
24 other spheres of activity that perhaps they are not best
25 qualified to engage in. If there were provisions reintro-
26 duced into the Act which prevented the accumulation of
27 corporate earnings beyond a certain point, would this be
28 desirable in your view?

29 MR. CAPON: Well, this is like "Have you
30 stopped beating your wife?" It is not desirable to have



1 the Act in the first place, therefore, it is not desirable
2 to amend it.

4 3 No, I am not going to criticize the manner
4 in which corporations handle gross per se. I am simply
5 criticizing the tax law which gives them the incentive to
6 mishandle growth. If they mishandle growth, that is their
7 privilege.

8 I think the corporation tax laws give us
9 the incentive to do things that are undesirable. I would
10 not propose to affix that by putting an amendment in the
11 corporation tax laws that you cannot retain profits.

12 MR. STEWART: If one of your objectives is
13 to encourage corporation distribution, could this be
14 accomplished by retaining corporate income tax but having
15 one rate applicable to distributed income and another and
16 a higher rate, applicable to undistributed income.

17 MR. CAPON: No. What would be the purpose?
18 I am asking for the elimination of the corporation tax.
19 You cannot solve my problem by levying different rates.

20 I am not concerned with the distribution of
21 income per se. I am concerned with the taxation of income
22 per se. I am concerned with eliminating something that
23 gives all the wrong incentives.

24 THE CHAIRMAN: You had three or four things
25 you were asking for.

26 MR. CAPON: I mean by that: Your differen-
27 tial in favour of taxes v. capital gains, higher taxes on
28 undistributed income, this is one of the features which is
29 bad in the Corporation Income Tax Act. I am not going to
30 say we are going to get a corporation tax act and I would



1 be happy if we had that. That is not going to solve our
2 problem.

3 MR. STEWART: By the same token, if we were
4 going to attempt to encourage greater distribution by
5 making dividends deductible in the computation of corpora-
6 tion income for tax purposes, again, this would not be
7 consistent with your ultimate objective.

8 MR. CAPON: No.

9 MR. STEWART: Well now, is there any method,
10 short of your system, which would increase or assist in
11 increasing savings on the part of the Canadian investor
12 and their using such savings in equity investment?

13 Is the dividend tax credit that we now have
14 a desirable feature and if so, would there be merit in
15 increasing the amount of that tax credit?

16 MR. CAPON: If the dividend tax credit is
17 an attempt to reduce an inequity in the law, then I say
18 that the tax credit should be set so as to remove the
19 inequity, the inequity being double taxation of income.

20 MR. STEWART: You say all tax is bad.

21 MR. CAPON: No, I don't say it is all bad.
22 I say if there is inequity that that dividend tax credit
23 is designed to mitigate an inequity. I think it should
24 be put at a level which eliminates any inequity.

25 That is a very cumbersome way to eliminate
26 the corporation income tax and impose a tax and then turn
27 around and make arrangements so you can offset the tax.
28 I would eliminate it in the first place, so you do not
29 levy it in the first place.

30 MR. STEWART: In any event, the credit only



1 applies to that portion of the earnings which are distri-
2 buted.

3 MR. CAPON: I realize that.

4 MR. STEWART: Mr. Capon, there is an
5 interesting article in an issue of the Canadian Tax Journal
6 which reached my desk only over the weekend. It is called
7 "A Tax System Without Company Taxation". It is written
8 by an Englishman whose name is Ralph Turvey. Have you had
9 a chance to see this article?

10 MR. CAPON: I believe I saw a digest of that
11 in the Economist, a British economic newspaper.

12 MR. STEWART: It may have been there. I did
13 not notice it there. According to the footnote here, it
14 originally appeared in Lloyd's Bank Review in January of
15 this year.

16 MR. CAPON: That is right. The Economist
17 picked out a one-page digest from Lloyd's Bank Review.

18 MR. STEWART: I do not want to attempt to
19 summarize this article. It contains a good deal that is
20 worth thinking about and it concludes I think with the
21 view that company taxation should be replaced by taxation
22 of shareholders, which is a view with which you would be
23 in agreement.

24 There is one point that is made here which I
25 would like to put to you for your comments. That is:
26 Today when shareholders are investing in shares of
27 companies, they do not in the ordinary case consider that
28 their particular allocated shares to undistributed income
29 of companies really belong to them at all. In other
30 words, they invest basically having regard to, I suppose,



1 the position of the company as a whole and the income
2 return.

3 When they think of the income return, they
4 think of the distributed income return.

5 MR. CAPON: Well, in other words, Mr.
6 Stewart, you feel that we have sold the shareholder the
7 same bill of goods we have sold the Canadian public, that
8 a corporation is something apart, that it is a factor that
9 is vital; it can do things of its own right.

10 MR. STEWART: I suppose it does go back to
11 that. You suggest that for present purposes corporations
12 should be disregarded.

13 There is another school of thought, as you
14 know, that stresses that a corporation is an economic
15 entity and should be treated for tax purposes as such.

16 MR. CAPON: I am saying that if we had a
17 vehicle that decided that our corporations will be so
18 treated and our Government will be so treated, in fact,
19 we turn over to these disembodied creatures the control of
20 our economic entity. I am saying unless we are prepared
21 to recognize we as a people own all these things. We
22 as a people are the government.

23 If the Government is spending money, it is
24 our money, it is not Government money. If corporations
25 are spending money, it is our money. It is not the
26 corporation's money, because the corporation is nothing
27 but a conduit.

28 If we are prepared to turn all these things
29 over, what do we have left?

30 MR. STEWART: Well, you see what we have



1 left is, according to your view, socialism. That brings up
2 a point I would like to attempt to discuss with you.

3 MR. CAPON: I am very proud to be in very
4 good company there. I was in New York three years ago.
5 I had the privilege of hearing Nikita Khrushchev say
6 exactly the same thing. I think he is right.

7 THE CHAIRMAN: What did he say?

8 MR. CAPON: He said ---

9 THE CHAIRMAN: Company taxes are going to
10 destroy Canada?

11 MR. CAPON: Corporation taxes are going to
12 kill capitalism. The higher you put them, the happier we
13 are. I agree with everything he said.

14 THE CHAIRMAN: I think that is a good thing
15 to end on.

16 MR. STEWART: I will not attempt to go
17 further.

18 THE CHAIRMAN: Thank you, Mr. Capon, so much
19 for a very interesting and stimulating discussion. Thank
20 you ever so much for appearing here today.

21 MR. CAPON: Thank you, Mr. Chairman, you
22 have been very considerate.

23 THE CHAIRMAN: We shall adjourn now until
24 Thursday at 9:30 a.m.

25

26

27 ---Whereupon the hearing adjourned.

28

29

30



1
2 ROYAL COMMISSION ON TAXATION

3 Hearing held in the Centre
4 Court Room, Exchequer Court
5 of Canada, Supreme Court Build-
6 ing, Wellington Street, Ottawa,
7 on Thursday, the 17th day of
8 October, 1963.

9 COMMISSION:

10 MR. KENNETH LeM. CARTER -- Chairman

11 MR. J. HARVEY PERRY

12 MR. A. EMILE BEAUVAIS

13 MR. DONALD G. GRANT

14 MRS. S.M. MILNE

15 MR. CHARLES WALLS

16 LEGAL ADVISER:

17 MR. J.L. STEWART, Q.C.

18
19
20 RESEARCH DIRECTOR:

21 PROF. D.G. HARTLE

22
23
24 SECRETARY:

25 MR. G.L. BENNETT

26
27 * * * * *



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* * * * *



Ottawa, Ontario
Thursday
October 17th, 1963

4155

/RPS 1

2 ---ON COMMENCING AT 9:30 A.M.

3

4 THE CHAIRMAN: Mr. Secretary we are ready
5 to go. Our visitors are ready.

6 THE SECRETARY: Mr. Chairman, and Commission-
7 ers, this morning we have a brief from the Canadian
8 School Trustees' Association. The brief is before you
9 and Mr. Lindsay H. Place, who is the immediate past-
10 president of the Association will speak to the brief
11 first and he will introduce his colleagues who are with
12 him.

13 At this time I would like to enter this
14 brief into the record as Exhibit 226.

15

16 ---EXHIBIT NO. 226: Brief submitted by the
17 Canadian School Trustees'
18 Association

19

20 SUBMISSION OF

21 THE CANADIAN SCHOOL TRUSTEES' ASSOCIATION

22

23 Appearances: Dr. Eric J. Hanson

24 Mr. H. Klinck

25 Lindsay H. Place, Q.C.

26 Mr. R.V. Johnson

27 Mr. Stuart Nicks

28 Mr. David M. Bishop

29

30 THE CHAIRMAN: Good morning Mr. Place,

gentlemen. We have enjoyed reading this submission very



1 much, I can tell you. While a lot of it really, I
2 think, is more concerned with Provincial and Municipal
3 matters, there are comments that you direct specifically
4 to us and which we are quite prepared to consider and,
5 in all events, the entire document is of interest to
6 us.

7 Mr. Place may I introduce to you the
8 Commissioners here. The names are all in front of us
9 and I would be grateful to you if you would introduce
10 your associates to us.

11 MR. PLACE: Thank you very much Mr.
12 Chairman. I think we are all familiar with the names
13 of the Commission, through seeing the printed names
14 in front of you. We have with us, on behalf of our
15 Association this morning, on my immediate right, and
16 I will ask each one of them to stand, we have Dr.
17 Eric Hanson who is the Professor and head of the
18 Department of Political Economy of the University of
19 Alberta who is our technical consultant and who has,
20 in fact, been responsible for the preparation of a
21 great deal of the factual material which appears in our
22 brief.

23 On my immediate right is Mr. Harold Klinck
24 who is our second vice-president and who comes from
25 Windsor, Ontario.

26 On my immediate left is Mr. Vernon Johnson,
27 who is president of the Association and who comes from
28 Edmonton Alberta and on his left we have Mr. Stuart
29 Nicks who is our first vice-president and who comes
30 from Saskatchewan and who, I might add, is apparently a



A3 1 happy and successful wheat farmer this year. Next to
2 him we have Mr. David Bishop, who is our permanent
3 secretary-treasurer.

4 The Canadian School Trustees' Association
5 is, as you can guess from its name, an overall body
6 which represents the interest of school trustees'
7 associations who are right across Canada and as all such
8 bodies, I think you will realize that we are faced
9 with a problem right away of making specific recommend-
10 ations in matters such as taxation. We have to
11 remember that we are dealing with the interests of all
12 our members and what may be of particular interest
13 to one group, or one area of the country, tends to
14 run counter, in some cases, to the interest of another
15 area. For this reason we have, like many associations,
16 had to be somewhat general in our approach to your
17 Commission and I hope you will excuse and overlook this
18 generality on our part.

19 The second point which I would like to
20 make is that, as your Chairman has mentioned, a good
21 deal of this brief is touching on matters which perhaps
22 are more properly within the competence of the Provincial
23 Government, or which again you might say should come
24 before a Royal Commission of the nature of the late
25 Rowell-Sirois Commission rather than the Commission
26 which is immediately concerned with matters on taxation.
27 We have, however, taken the attitude that any
28 commission on taxation can deal with taxes, unless
29 they tend to approach it from the point of view of
30 saying the tax, or the form of taxes that must be imposed



A4 1 are those which are required to produce the amount of
2 revenues which are needed. We feel that taxation is
3 indivisible. That is, you cannot compartment-off taxation
4 at the Federal level from that at the Provincial
5 level or at the Municipal level.

6 It is like several tanks of water which
7 are connected and if you drop the level in one tank,
8 then the others are going to even off and reach one
9 common level.

10 In other words, if the Federal Government,
11 for example, were to cut its income tax rate, the
12 probabilities are that the Provinces would immediately
13 step in and take up that slack. Therefore, as I say,
14 we feel very strongly that taxation must be looked at
15 as a whole and it is on this basis that the main part
16 of our brief is found.

17 We feel that little, or not enough is known
18 about the costs of education in Canada. We have run
19 into considerable trouble ourselves, from time to time,
20 in determining what these various costs are and when
21 the question first came up of submitting a brief to
22 this Commission, we rapidly reached the conclusion the
23 most valuable service we could do would be to prepare
24 a study which would put, or pinpoint the problem and
25 put it in focus to give some idea of what is the
26 approximate amount of money involved and what may be
27 involved over the next decade or two decades.

28 Now I am sure that all of you will realize
29 of course that we are trying to do a projection here
30 in respect, particularly, to 1981 and that like all



A5 1 projections, they tend to be dangerous and we can
2 only estimate. It is an educated estimate but you
3 cannot take it as being an absolute fact. Now we
4 are satisfied that the estimates that are given in
5 this brief are on the conservative side rather than
6 on the liberal side.

7 We have reached two principal types of
8 conclusions. Our studies show that at the present
9 time the total education cost in Canada is in the
10 vicinity of one billion six hundred and fifty-one
11 million in 1961. We estimate that by 1971 this will
12 increase to three billion three hundred and thirty-
13 five million and by 1981 to five billion four hundred
14 and eighty million. This is assuming that the
15 purchasing power of the Canadian dollar does not
16 change.

17 Now with those figures in mind, we have
18 looked at the situation to see how this staggering
19 cost of education is to be met, and we have, briefly,
20 come to the conclusion that it cannot be met through
21 the present form of taxation or revenue available
22 to public bodies who are responsible for education
23 so that our first recommendation is that we feel that
24 there must be a redivision of either the responsibilities
25 under the British North America Act as between the
26 Federal Government and the Provinces, or, alternatively,
27 a recasting of the powers of taxation between the
28 two groups of governments to direct their competence
29 in keeping with the particular responsibility of each
30 section of Government.



A6 1 Secondly, we say that if this is not
2 possible, or feasible, that as a short-term expedient
3 there should be certain specific changes made. We
4 suggest, first, that as a short-term solution that
5 The Income Tax Act be amended to cut income tax
6 rates and in this way to permit Provincial Governments
7 to increase their rates of income tax or, alternatively,
8 for the Federal Government to allow the deduction by
9 individuals of higher rates of Provincial income tax.

10 Secondly, public education authorities
11 should be relieved from the payment of any and all
12 Federal taxation.

13 Now there are a variety of taxes. They
14 are naturally not income taxes, but various types of
15 excise taxes, sales taxes and so on, which hit
16 school authorities in virtually everything they buy,
17 from every project of a material nature they undertake.
18 In the particular individual case the amount may appear
19 small, but when they are all added together, they
20 do amount, over a period of time, to a substantial
21 sum.

22 Thirdly, the Canadian Income Tax Act
23 be amended to allow homeowners to deduct their real
24 estate taxes and mortgage interest from their taxable
25 incomes and so permit real estate taxes, which are
26 the principal concern of revenue of public education
27 authorities, to be increased without cost to homeowners
28 and fourth, that consideration be given to amending
29 the Canadian Income Tax Act to allow individuals
30 to deduct each year from their taxable income first the



A7 1 interest paid in such year on any educational loan
2 and, secondly, any repayment of the principal of such
3 a loan, not exceeding a certain percent in each year
4 of the individual taxable income for that year.

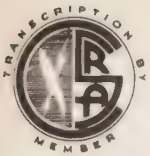
5 Now you can say how to arrive at the various
6 decisions or recommendations?

7 In 1946 the public expenditure in education
8 amounted to approximately eight per cent of the revenue
9 collected by all levels of Government. At the present
10 time this has gone up to 16 per cent. The demand by
11 the public for more and better education is a continual
12 one and which, as school trustees, as all of us at
13 this table are, we can assure you is one that is not
14 going to stop, and which is going to continue.

15 We have, as I explained a few minutes ago,
16 made certain studies to try and arrive at these
17 expenditures and at this point I would refer you to
18 page 24 of our brief, where under table one we indicate
19 first what these expenditures are. What they are
20 in 1961, what they will be over the next two decades,
21 and we have done this first in terms of constant
22 1957 dollars and then, secondly, as a comparison of
23 the Gross National Product.

24 I will not take time to read this table to
25 you, because it is on page 24 in our brief, and I am
26 sure that all of you have probably looked at it
27 already.

28 If our studies and projections are correct,
29 and as I said earlier we think they are on the conserv-
30 ative side rather than the liberal side, we think an



A8 1 important fact to be considered is not so much the
2 total education in dollars in 1981, impressive as that
3 may be, because our Gross National Product and our
4 ability to pay is certainly going to increase over
5 that period because we are going to have more people,
6 going to have more spending, more wealth generally.
7 But the important point we think is to try and find
8 out what percentage increase this represents in actual
9 cost and for this purpose we preferred to use the
10 G.N.P.

11 Their figures indicate that while the
12 total cost for all education in 1961 amounted to
13 4.78 of the country's Gross National Product, it will
14 absorb 7.20 per cent of the Gross National Product
15 in 1981, that is a 50 per cent increase. That is
16 the problem which particularly concerns us as school
17 trustees and which we think should concern the country
18 as a whole.

19 The problem facing all levels of government
20 is how this 50 per cent increase in cost can be
21 squeezed out of our reluctant taxpayer, or out of
22 our present tax structure. In the past Provincial
23 and local Government bodies have raised approximately
24 five-sixths of the total education cost, the tax on
25 real estate imposed by local authorities meeting about
26 one-half of the total cost of education. With the
27 bulge in school population in the 1950's the property
28 tax, even though it continued to increase, was
29 insufficient to produce the revenues needed and the
30 various Provincial Governments were forced to contribute



A9 1 more and more than they had before. Now this was
2 possible for them to do because of their more varied
3 and their more elastic tax revenue structure but we
4 have now reached a point with the Provincial Government
5 that large and ever-increasing demands of still higher
6 levels of education, namely university, have put the
7 Provincial Government in the point where even their
8 budgets are now strained to the limit and where there
9 appears little room or elasticity for them to contribute
10 more to public education.

11 Therefore, local government taxation on
12 property increased from three hundred and thirty-five
13 million in 1954 to six hundred and seventy-six million
14 in 1961 or from 1.35 per cent to 1.83 per cent of the
15 Gross National Product. At the same time, however,
16 it fell as a percentage of the total cost of education.

17 It dropped from 47 per cent in 1954 to
18 38 per cent in 1961 and we estimate that local
19 property tax will produce some seven hundred and fifty
20 million in 1963 or only about 33 per cent of the total
21 cost of education today as compared with the 47 per
22 cent that it covered in 1954. Now even this 33 per
23 cent of the total cost of education represents a level
24 of about two per cent of the country's Gross National
25 Product and we expect that property taxation for
26 education purposes, in view of all the other demands
27 that are placed on the property tax by local authorities,
28 has now just about reached a saturation point. We
29 do not think that it should, under existing conditions,
30 be pushed to a level which generally amounts to higher



101 than two per cent of the Gross National Product.

2 Now this is, as you will realize, a
3 generalization. There are undoubtedly areas in the
4 country where real estate taxes, because of particular
5 conditions, can go higher than they are now, but there
6 are other areas which very definitely at the present
7 time have reached and are probably higher than they
8 should be and are having a deleterious effect on those
9 particular areas and tend to drive people away.

10 Now to sum up what has been the impact
11 on a Provincial Government expenditure on education,
12 I would simply like to say that in 1954 the total
13 expenditures by provinces came to \$276,000,000, which
14 was 39 per cent of the total cost of public education.
15 22 per cent of the Provincial Government revenue and
16 1.11 per cent of the Gross National Product.

17 In 1961 the educational expenditures had
18 risen to \$765,000,000 or about 43 per cent of the total
19 educational expenditure; 30 per cent of the Provincial
20 Government revenues and 2.07 per cent of the Gross
21 National Product. This year, in 1963, we estimate that
22 educational expenditures will rise to \$1,100,000,000,
23 which will be 48 per cent of the Provincial Government's
24 total expenditure and that it will take 33 per cent
25 or about one-third of the total Provincial Government
26 revenue, and that this will constitute 2.5 per cent
27 of the Gross National Product. We therefore feel that
28 unless some change is made in the taxation provisions,
29 or in the allocation of responsibility under the
30 British North America Act, that Provincial Governments



1 cannot contribute amounts towards the total cost of
2 education much in excess, if any, of 2.5 per cent of the
3 Gross National Product, or that is about the rate that
4 they are contributing at the present time.

5 Now in 1954 the Federal Government contributed
6 some \$39,000,000 towards the cost of education and
7 this was about five per cent of the total cost of all
8 education for the year, or less than one per cent of the
9 Federal budget and about .16 per cent of the Gross
10 National Product.

11 In 1961 their contribution had risen to
12 approximately \$143,000,000, which was eight per cent
13 of the total cost of education for the year, and two
14 per cent of the Federal budget and about .39 per cent
15 of the Gross National Product.

16 In 1963 we estimate that the Federal
17 Government expenditure on education will approximate
18 .5 per cent of the Gross National Product.

19 Earlier we estimated what would be the
20 total cost of education in 1971 and 1981 in terms of
21 the Gross National Product. Using those figures on
22 the table, and making no change in the Federal
23 Government's, 1963 estimated contribution towards
24 education cost of .5 per cent of the Gross National
25 Product, we have arrived at the following figures
26 as a percentage of the Gross National Product. First
27 we say that total education costs in 1971 will take
28 6.5 per cent of the Gross National Product and that
29 in 1981 it will rise to 7.2 per cent.

30 We figure that this cost will be met in the



1 following ways: in 1971 that the Provincial Govern-
2 ment's contributions will amount to 2.5 per cent of the
3 Gross National Product. That local Government
4 contribution will amount to 2 per cent. That contribut-
5 ions from other sources will amount to .6 per cent.
6 The Federal Government's contribution left: at their
7 present rate of .5 per cent will bring this total
8 up to 5.6 per cent which will leave us a deficit in
9 terms of Gross National Product of .9 per cent for
10 1971.

11 For 1981 the figures remain the same all
12 the way through except that you have arrived at a
13 total then, or at least you arrive at a total of 5.6
14 per cent in terms of G.N.P. from the point of revenue,
15 but as your expenditures are going to be 7.2 per cent
16 in that year, your deficit therefore goes up to
17 1.6 per cent of the Gross National Product.



RPS 1 If we translate the anticipated deficits
2 in 1971 and 1981 from terms of Gross National Product
3 to dollars we find they indicate a dollar deficit
4 of \$353,000,00 in 1971 and \$938,000,00 in 1981.
5 We think it is unrealistic to believe that the
6 Provincial or local Government revenues can be
7 expanded under the present system of taxation. As
8 the great residue of taxing power lies with the
9 Federal Government we therefore feel and believe that
10 unless there is some overall change that any deficit
11 of the revenues needed for education must come
12 largely, if not completely from a source of taxation
13 which lies within the realm of the Federal Government.

14 We admit that this may be accomplished by
15 the Federal Government
16 undertaking to defray the total cost of vocational,
17 technical and university education. They could do
18 that through fiscal grants to the Provincial Government,
19 through arrangements such as The Technical and
20 Vocational Education Training Assistance Act which
21 is now in force or they could do it through the
22 University Grant Formula they have developed or by
23 some similar means or concept or alternatively they
24 could say we are going to revamp the whole of the
25 responsibilities envisioned in The British North
26 American Act between the Federal and the Provincial
27 Governments.

28 Now, there are, of course, lesser points
29 that we have touched on in our brief. I think I have
30 covered our main submissions. I would like at this
point to defer to our president, Mr. Vern Johnson.



B2 1 Your Secretary sent a written list of questions to
2 us which you indicated would be helpful if we could
3 supply answers to those questions. I will frankly say
4 that some of these questions were rather embarrassing
5 and difficult to answer, not that we are trying to
6 hold back anything or have any scruples about answer-
7 ing them, but simply statistics kept by school boards
8 and by educational authorities are not particularly
9 designed to meet the needs of people who want to dig
10 down into the financial facts on what you might call
11 a cost accounting basis, so it is extremely difficult,
12 we find it extremely difficult to find specific
13 answers to these questions. I am going to ask Mr.
14 Johnson if he will run over the questions quickly. I
15 don't know how you would like to carry on on the
16 particular questions, whether you want to question
17 each one that is gone through or whether you would
18 like Mr. Johnson to run through them all and give the
19 best we can. Consequently I will leave that in your
20 hands.

21 THE CHAIRMAN: Thank you very much. Your
22 statement is extremely interesting. I am not familiar
23 with the questions raised. They were prepared by our
24 staff for the work of our staff. Mr. Secretary, have
25 you got the list of the questions here? I think,
26 Mr. Johnson, that we might deal with them afterwards.
27 I see little merit to run over a list of questions
28 with which we are not familiar. We all have our own
29 questions here. Could those be turned in for the purpose
30 of our staff? Could you write them down?



B3 1 MR. JOHNSON: We have written questions
2 that are contained in a letter from your Commission
3 Secretary under date, July 19th, 1962, Mr. Chairman.
4 No formal replies have been prepared and indeed certain
5 questions, as Mr. Place indicated we are unable to
6 answer at all. We could notify the Commission of the
7 reasons why we feel incapable of answering those
8 questions.

9 THE CHAIRMAN: Some of the questions you
10 have got answers for, I take it?

11 MR. JOHNSON: Yes.

12 THE CHAIRMAN: And the answers are before
13 you there and are written on a piece of paper?

14 MR. JOHNSON: The answers are not. The
15 questions could be answered verbally.

16 THE CHAIRMAN: All right, you run down the
17 answers to them. There are fifteen questions here. How
18 long will it take to dictate the answers and have them
19 taken down right here? I don't know whether we want
20 to explore it. It seems to me this kind of detail --
21 operating cost per student, the outlay per additional
22 pupil, regional variation in cost -- I would prefer
23 those to go direct to the staff rather than to us.

24 MR. JOHNSON: I think I would prefer that
25 too.

26 THE CHAIRMAN: Let us leave it at that.

27 MR. JOHNSON: Because of the difficulty
28 of answering them.

29 THE CHAIRMAN: Don't both standing up,
30 gentlemen, unless you wish to do so. Most people don't



B4 1 in these appearances.

2 MR. JOHNSON: I would prefer to. Now,
3 Mr. Chairman . . .

4 THE CHAIRMAN: Yes.

5 MR. JOHNSON: I would like to bring the
6 question of errata in the present brief to the
7 Commission's attention. There are perhaps half a
8 dozen minor errors in the printed brief, printer's
9 errors. At page 8 the word "development" is misspelled
10 on the third last line preceding paragraph numbered
11 B.

12 THE CHAIRMAN: School trustees know better
13 than that.

14 MR. JOHNSON: At page 9 the word "a" in
15 the fifth last line in the last complete paragraph
16 on page 9.

17 "placed a great financial responsibilities
18 "upon it".

19 It should read:

20 "placed great financial responsibilities
21 "upon it".

22 At page 12 the commencement of the final
23 paragraph the word "of" should read "if" -- "if all
24 benefits accrued".

25 THE CHAIRMAN: I am sorry, where is that?

26 MR. JOHNSON: The commencement of the
27 final paragraph, page 12, "if all benefits accrued"
28 rather than "of". At page 36 "vocational" is mis-
29 spelled. It sounds like we are going on a vacation.
30 "Vacotional" is the word that appears. It should be



B51 "vocational", of course. At page 41 the final line,
2 the word "estimate" should read "estimated".

3 Next at page 50, commencing paragraph
4 numbered B of the footnote it reads "their percentage
5 were". It should be "these percentages". Next at
6 page 52 we would like to point out that the brief was
7 more or less in final form prior to the publication of
8 the revised D.B.S. figures in the year 1961. These
9 figures came out during the month of August, 1963.
10 We do have the revised figures for 1961 and in every
11 instance those figures are larger. I have the specific
12 figures. Perhaps the "total Canada" should be stated.
13 Rather than 28049 that should read 28506. As Dr.
14 Hanson has stated possibly a former Prime Minister
15 might have a cause of action against the D.B.S.
16 Finally, Mr. Chairman, there is a dash which appears
17 in the final line of the footnote "per teacher --
18 the data" -- that dash should not appear. It should
19 be "per teacher the data".

20 THE CHAIRMAN: What page is that?

21 MR. JOHNSON: I am sorry, sir, page 63.

22 THE CHAIRMAN: 60?

23 MR. JOHNSON: 63, table D6.

24 MR. PERRY: I wonder if I might add one,
25 the footnote on the bottom of page 22. Bill McCordy
26 happens to be a neighbour of my and I know his name
27 ends with a "y" and not an "e".

28 MR. JOHNSON: I could verify this, of course,
29 Mr. Perry. Those are all the errata that have come
30 to the attention of the group present, Mr. Chairman.



B6 1 THE CHAIRMAN: Thank you, Mr. Johnson.

2 Now, I think we would like to ask a few questions,
3 if we might. I think we might, first of all, direct
4 our questions to your statistics before directing
5 them to the conclusions. Certainly I have got a few
6 questions concerning the compilation of figures.
7 I daresay we all have. One of the most important
8 ones, of course, is to what extent have you considered
9 the matter of education to be a public responsibility?
10 I think the notion now exists that school education
11 is a public responsibility and university, probably,
12 very largely. It occurs to me that we may as a nation
13 be moving more and more towards acceptance of public
14 responsibility for higher education, perhaps by revising
15 fees, by eliminating fees, perhaps by further
16 burseries or maybe by making grants or loan funds,
17 by all kinds of things -- I don't know. Do your
18 figures make any changes in the existing general
19 arrangement in respect of higher education? Have
20 you been more liberal in that regard?

21 MR. PLACE: I think in certain respects,
22 for example, in vocational and technical training
23 where it is obvious there is going to be much more
24 in the future than in the past. There has been
25 allowances made for that. I think it is also fair
26 to say in certain specific areas of education such
27 as teaching of handicapped children, including
28 retarded children where we know there is going to
29 be more spent in the future than there is in the past
30 that there have been allowances made for that, but



B7 1 subject to correction by Mr. Hanson I would say that
2 the figures generally are based on past practices that
3 have taken place within public education circles.

4 Am I correct in that, Dr. Hanson? Does that answer
5 your question?

6 THE CHAIRMAN: Yes, it answers it very
7 well. As to the numbers of students, we have all
8 been concerned with the drop-out rate in the eighth
9 grade and with the low proportion of matriculants
10 going to university than is evident in certain other
11 countries. Have the figures provided for lower
12 rate of drop-out and higher rate of university
13 entrance and higher rate of university graduation?

14 MR. PLACE: I will ask Dr. Hanson that.

15 DR. HANSON: They allow for a higher rate
16 of university graduation, higher rate of highschool
17 graduation.

18 THE CHAIRMAN: Could you tell us to what
19 extent?

20 DR. HANSON: I think it is a very difficult
21 question to answer because it can be dealt with only
22 on a province by province basis. In Ontario, for
23 example, the drop-out problem is very acute after
24 grade eight. In some other provinces this drop-out
25 doesn't occur until grade twelve or even grade
26 thirteen. It may be in the first year of university.
27 I think it is very difficult to present a full
28 picture. I do know that the educators are working
29 hard on this problem.

30 THE CHAIRMAN: I think I have seen figures



B8 1 indicating that the relation of our university graduates
2 to the entrance to primary school is about one-half the
3 rate which is achieved in the United States, am I correct?

4 You know better than I?

5 DR. HANSON: Oh yes, they were much lower
6 than the United States.

7 THE CHAIRMAN: ~~Would~~ your figures go any
8 distance to correcting that imbalance?

9 DR. HANSON: I think the projections take
10 into account some expansion, some closing of the gap
11 between us and the United States. It doesn't go all
12 the way.

13 MR. PLACE: I might add, Mr. Chairman, there
14 was a study made on this question of drop-outs in the
15 Province of Quebec by the Roman Catholic School Teachers'
16 Association there, and the one thing that came out
17 clearly in that study was that your drop-outs tended
18 to be in keeping with the range of education of the
19 parents. In other words if the parents had gone no
20 further than the end of elementary school it was found
21 that the drop-outs of children after completion of
22 elementary school were much greater than those where
23 the parents had gone higher. If the parents completed
24 highschool the chances were much greater for children
25 completing highschool and the same thing applies to
26 going to university. As more and more of our parents
27 reach higher levels of education I think it is safe to
28 say that the rate of drop-out will continue to decrease
29 and go down. There are other specific educational
30 studies that are being taken to combat this problem



B9 1 and, I think, with some considerable success, such as
2 having individual timetables and courses of study for
3 each pupil will allows him to stay at school and keeps
4 up their interest much longer.

5 THE CHAIRMAN: It occurs to me, and I am
6 directing myself to the figures rather than the principle,
7 what I would hope ~~to be~~ achieved by 1971 ~~would~~ ~~would~~
8 require a great deal more money.

9 MR. PLACE: We think our figures are on the
10 low side to be perfectly honest, but if we put in the
11 higher figures we thought, we felt that it would be
12 so fantastic -- however, certain high figures are
13 included in the tables of statistics later on.

14 MR. JOHNSON: There is just one further
15 minor point that I would like to add: there is general
16 trend to the gradual development across the country
17 to diversify the secondary school problem, to orient
18 it to the capability and interests of highschool students
19 generally rather than relating it essentially to the
20 matriculation pre-university entrance programme. We
21 anticipate this will be a major factor in years to come
22 in-pupil orientation.

23 MR. PLACE: And also increasing the school
24 costs.

25 COMMISSIONER WALLS: Dealing with the
26 statistics, first of all on page 19, you state there
27 are great disparities of the expenditures per pupil
28 in the different provinces, and in your table D19 you
29 enlarge on it and show the cost in various areas. From
30 that I note that certain provinces, that their education



B10 1 is now costing twice that of other provinces. This
2 situation is improving because in 1951, for example,
3 British Columbia, it was almost four times as large
4 as other provinces. Yet, when I meet people educated
5 in the provinces whose education cost is less it seems
6 to me that their education is just as high as it is
7 in the Province that I come from which was one of the
8 two highest Provinces. Would you say part of this cost
9 is unnecessary frills in the higher cost provinces
10 in education?

11 MR. PLACE: I come from one of the lower
12 cost provinces. I will ask Mr. Johnson to answer that.

13 MR. JOHNSON: Dr. Hanson elaborated on this
14 point to myself on previous occasions and to our group
15 yesterday. Frankly, one of the unescapable observations
16 of Dr. Hanson is that where money is available is it
17 spent, particularly where monies are not realized
18 from individual tax sources or taxes on citizens. The
19 Province of Alberta, for one, has been extremely fort-
20 unate in having a source of revenue, oil revenues which
21 doesn't present a financial burden to the resident
22 taxpayers.

23
24 -
25
26
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28
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30 -



/RPS 1 There are a number of explanations, however.
2 Certainly no one would seriously suggest that there is
3 a direct relationship between the cost per pupil and
4 the efficiency or results of a provincial educational
5 programme because the cost, for example, which relates
6 to building -- to deal more specifically with Mr. Walls'
7 example: in Newfoundland, for example, there are
8 \$128 for 1961 and \$341.1n Alberta for 1961. No one
9 would seriously contend that the quality of education
10 bears the same ratio.

11 There are a number of factors which, how-
12 ever, do account for the disparity of cost. Rapid
13 expansion is one of the most significant. We have
14 a more youthful population in Alberta. Possibly a
15 smaller portion of our population is native-born.
16 Consequently, it tends to be more youthful. We have had
17 growing pains and as the rate of growth of population
18 tends to level out, or increase at a less acute rate,
19 we do believe that these figures will tend to level
20 out correspondingly.

21 COMMISSIONER WALLS: I would just like to
22 add to this question a little. You stated that where
23 there is money, it will tend to be spent. Now of course
24 in the other provinces they have not got this oil revenue
25 which does come out of taxation mostly. The point is
26 if there are extra frills, the debate is who is respon-
27 sible for them? People say the school board is. Now
28 I want to qualify that by stating that I think members
29 of school boards are the most sincere forms of citizens
30 we have got. They get less financial return and more



C2 1 abuse than any group of public-spirited citizens.
2 I know that, but the point is this: Is it the school
3 board then who decides the nature of these frills or
4 has the school board today got little or no local
5 autonomy and it is the Departments of Education who
6 decide what these frills will be?

7 MR. PLACE: With all due deference to you,
8 I would like to take strong exception to the inference
9 there are frills. I would say that by and large that
10 is not so. There are not frills within the education
11 system. Secondly, the education system is patterned
12 according to what is the need. What are the demands that
13 the school trustees receive from their constituents,
14 the public.

15 We, in turn, put pressure on the various
16 Departments of Education to meet these demands or to
17 help meet them. Sometimes they are ahead of us and put
18 the pressure on us but more often it is the reverse,
19 the pressure comes from the grass roots up.

20 Now I would be very interested in knowing
21 what kind of frills you are referring to? I might quote
22 some general statistics that would perhaps put the
23 picture a little more in context. I think though it is
24 fair to say by and large out of every school trustee budget
25 some 60 per cent of it goes on one cost, that is teaching
26 instruction. Roughly somewhere in the area of 20 per cent
27 goes for building and maintenance, and the remaining
28 20 per cent covers everything else, including the cost
29 of textbooks, transportation, and so on.

30 Now by and large I think you will agree on the



C3 1 basis of those figures that there is not very much
2 room for giving frills. Unless you are talking about
3 frills in the way of building. Now if you are speaking
4 of frills in the way of building, certainly you could
5 pick out individual examples. You could pick out perhaps
6 a school in Toronto that I gather may have a fancy
7 swimming pool and may have underground parking. There
8 may be very good reasons for this but the average
9 individual looks at it and says "Good God, this is
10 extravagant." These are frills. I would say, further,
11 if you go into the schools today that you will be
12 struck between the difference between them today and
13 what they were 20 or 30 years ago.

14 Now actually in terms of real dollars the
15 costs of school buildings today have gone down very
16 considerably in relation to what they were 20 or 30 years
17 ago but a great deal more ingenuity is being exercised
18 both by the school trustees and particularly by the
19 architect and the builders to make the best of what
20 they have.

21 They are working on the same theory as the
22 people who put out Ivory soap. When they found it
23 floated and were scared they couldn't sell it, they
24 said let's emphasize that feature. Schools today are
25 constructed basically of a brick veneer outside,
26 cement block inside and exposed steel roof beams and
27 we capitalize on these things and by the judicious
28 use of colour we accent the things which would normally
29 be considered as objectionable eyesores and out of this,
30 and I think we have succeeded extremely well, the public,



C4 1 or a section of them obviously has gained the impression
2 that the schools are very luxurious.

3 THE CHAIRMAN: Perhaps you succeeded too
4 well.

5 COMMISSIONER WALLS: I am not quite
6 satisfied with the original answer that I got as to why
7 there is such a wide disparity between the provinces.
8 What I am getting at is that even in Ontario your cost
9 of education is one-quarter less than it is in two of
10 the other provinces. Now the expansion in Ontario,
11 looking at the figures, is pretty well up in line with
12 the expansion of population in these other provinces.
13 Where is the difference in the expenditure when there
14 is, apparently, as high a standard of education in
15 Ontario as there is in either Alberta or British
16 Columbia?

17 MR. PLACE: I think there are many answers
18 to the problem that you have raised sir. One of them
19 is, of course, the relative degree of density of
20 population. Now your relative degree of density of
21 population in Ontario tends to be much higher than it
22 would be in Alberta or Saskatchewan or Manitoba. One
23 of the very high costs in many of these school boards
24 out in the Western part of our country is the cost
25 of transportation. Now your transportation costs
26 normally in Ontario, or in the Province of Quebec
27 particularly where you have large urban school boards
28 are much lower than they are for the Western and
29 less-settled areas. That is one area where you find
30 the difference in the actual facts.



C5 1 Secondly, you get into the situation where
2 you have different rates or progression in your
3 educational philosophy. Now you have, for example,
4 in Ontario, and I think this is true in the other
5 provinces also, this process towards centralization of
6 larger individual school boards, particularly in the
7 less-urbanized areas. Now these do have certain very
8 definite advantages educationally. They allow you to
9 give, at a reasonable unit cost, a much greater option
10 of subjects, a much greater variety. You can teach
11 some courses which you could not teach if you only had
12 two or three individuals. Maybe this has progressed
13 at a greater pace in some provinces than in others,
14 but you have this fact reflected in some of your school
15 costs. There are many many factors which I can continue
16 going into which are going to account, to a greater
17 or lesser degree for this disparity in expenses.

18 Another one very obviously is that the
19 school expenses tend to follow your expenses of other
20 forms of endeavour. Referring to Alberta: in Alberta
21 you have the oil industry there. The oil industry
22 generally pays a very large scale of wages. Obviously
23 you will find your teachers' scale of wages and salaries
24 is probably higher in Alberta than most other places,
25 and so are all other costs, costs of constructions,
26 and so on. It is a natural outcome of the local environ-
27 ment.

28 COMMISSIONER WALLS: I wonder if I could
29 ask one more question? I am glad you brought up the
30 subject of teachers. I have studied the D.B.S. statistics



C61 on education and I found that the relationship between
2 teachers' salaries between low-cost provinces and
3 high-cost provinces per pupil, the relationship of
4 salary is almost identical. Why is it then that you
5 do not denude the low-cost areas of teachers to the
6 high-cost areas when we require teachers in the high-
7 cost areas? I do not understand that. Why you cannot
8 pick these teachers from the places where they get
9 half the salary that they would get somewhere else
10 in Canada by just moving there.

11 MR. PLACE: You have certain other factors
12 which tend to tie people down. I come from Montreal
13 and I am the Chairman of a School Board there which
14 has approximately between eight and nine thousand
15 children. I would say that last year we hired some
16 seventy to seventy-five teachers of whom I think approx-
17 imately 25 or roughly one-third came from the Province
18 of New Brunswick and Nova Scotia and they were drawn
19 right to us because of the higher rates of pay and
20 more particularly most of them were females and their
21 desire to get into a larger urban centre where I think
C222 they felt the bright lights had more to offer them.

23 As far as your salary scale throughout
24 the various provinces is concerned, you have certain
25 limiting factors there as to what you can pay. For
26 example we will not give credit for outside services
27 for more than a certain number of years in making
28 an offer to a teacher. I don't know whether I make
29 that clear or not, so that if a teacher in Nova Scotia
30 or New Brunswick has, say, ten or twelve years of



C7 1 service, even though the rates of pay for ten or
2 twelve years of service in Quebec or Ontario would be
3 substantially higher than they were getting, he would
4 have to sacrifice his extra four or five years of
5 service and he would have to come into Quebec on the
6 basis of seven years' experience and get the rate for
7 a seven years experience teacher and at that rate there
8 is not enough difference, or may even be a financial
9 loss to him, or to her in doing it, and therefore,
10 they don't move.

11 COMMISSIONER WALLS: Thank you.

12 DR. HANSON: I would like to point out
13 one major difference in the statistics between Ontario
14 and Alberta. If you examine table D4 in pupil-teacher
15 ratio in Ontario, 1961, 28.7 in Ontario per teacher.
16 In Alberta it's 23.4, a very marked difference which
17 I suppose explains it, at least on the surface.

18 COMMISSIONER WALLS: That does not stack
19 up so well between Ontario and British Columbia, where there
20 is only a few dollars difference between the per pupil
21 cost.

22 DR. HANSON: Yes, the total in British
23 Columbia is closer to the Ontario figure.

24 MR. KLINCK: To take up Mr. Lindsay Place's
25 argument about transportation being a big item, in the
26 City of Windsor -- in the Windsor district where
27 transportation is not provided for secondary school
28 students, the mill rate is 12. In the adjoining
29 district of Essex the mill rate is 18.5. The difference
30 is absorbed by transportation cost. In Essex they pick



up all their students, except a small group from urban communities. In Windsor they pick up none.

COMMISSIONER GRANT: You have not a table based upon the qualification of teachers, covering the various provinces?

MR. JOHNSON: There is no such table in the brief. However, I have had the opportunity of reading what started out to be a confidential study of this performed by one of the Provincial Teachers' Associations which surreptitiously found its way into the trustees' hands. This table indicates that Alberta and British Columbia do in fact have the highest teacher qualification. Ontario is next and the other provinces are all less.

COMMISSIONER GRANT: What is that based on? Minimum requirement? It wouldn't be the maximum requirements?

MR. JOHNSON: Certainly not on the maximum requirement. There is a tendency in British Columbia and Alberta to have a substantially higher portion of degree teachers in elementary schools. There is a tendency amongst the three Provinces, Ontario, Alberta and British Columbia, to have university minimum degree qualifications for secondary school teachers.

COMMISSIONER GRANT: Just as an observation, I suppose that as trustees you are sometimes faced with the situation where a teacher, with the degree qualification, is actually not as qualified to teach a particular class as the teacher who has not got that formal education but has had a natural tendency to teach,



C9 1 the gift of teaching, plus years of experience?

2 MR. PLACE: No question about that sir.

3 Teachers with degree qualifications tend to have a longer
4 tenure. The nature of salary grids benefits teachers
5 with greater experience. Consequently, you have the
6 extremes of the lower qualified teachers also having
7 lesser experience than the higher qualified teachers.
8 The disparity between salaries of the two are extreme.

9 COMMISSIONER GRANT: Now if I may just
10 continue until I finish my questions. When you get
11 the variation in the expenditure as between provinces,
12 we could accept this fact that most of that variation
13 would be in the salary expenditure?

14 MR. JOHNSON: No, no I would say a substantial
15 portion of it naturally would be salary, but so far
16 as Alberta particularly is concerned an extremely
17 large factor is pupil transportation. I can say an
18 extreme example, the County of Forty Mile in the Province
19 of Alberta, transportation costs take 72 per cent of
20 the overall school budget and 28 per cent is left for
21 the teaching and operating the building.

22 COMMISSIONER GRANT: Having regard to that,
23 don't you think then that the comparison as to
24 expenditures loses a great deal of significance?

25 MR. JOHNSON: Yes. I would suggest it
26 would be substantially more significant if the
27 transportation factor were taken out of the actual
28 figures.

29 MR. PLACE: I think we have to include some
30 of these figures in there to justify the observations



C10 we have made, which I realize I did not point up and
2 that is that we feel somehow or other there has to be
3 a system whereby the less-wealthily endowed provinces
4 are given some extra financial assistance. We are
5 quite frank in admitting we do not know how that can
6 be done, or how it should be done but there is no
7 doubt in our minds that at least the Atlantic Provinces
8 and probably Saskatchewan are going to require something
9 in the way of extra help to keep up education with the
10 requirments of Canada.

11 COMMISSIONER GRANT: You would not be
12 able to convince a government body, based upon the
13 statistics that we have to consider.

14 MR. PLACE: Well we think you have to
15 take the statistics in total and we assume, talking of
16 the school trustees, that they are carrying out their
17 job well and efficiently and in fact that what is
18 spent is no more money than is absolutely necessary.

19 COMMISSIONER GRANT: I was thinking of
20 adjustment grants. If you were comparing Alberta and
21 New Brunswick, you would have to take out of the
22 Alberta expenditures the items which would not be a
23 factor in New Brunswick to get a comparison, to get
24 a standardization between the two Provinces. You would
25 have your expenditures. You would have to have a total
26 on the items which would be of mutual concern to each
27 Province.

28 MR. PLACE: Well I don't know that we would
29 agree with you sir on that because we take the
30 attitude that the costs of education are what they are,



C11 where they are. Now it may be, for example, that it
2 will cost you 50 per cent more to build a house up in the
3 northern part of Canada as compared with what it may
4 cost to build it in Toronto or in Montreal. You may not
5 have one ~~with~~ more accommodation, or anything else. Your
6 needs are exactly the same. You have no choice. You
7 have to spend the extra 50 per cent. Now education is
8 very much like that. We are spending what is necessary
9 to give the requisite level of education and our argument
10 is that you cannot get away from this factor. You have to
11 spend as it is needed, whether you spend it on trans-
12 portation or whether you spend it on something else.

13 It may be that before long we are going to
14 be running hostel schools, maybe bringing children from
15 outlying areas and put them all in one central area where
16 they may stay there from, say, Monday morning until
17 Friday evening and where they will be looked after by
18 some government body while they do their studies. This
19 is a very definite possibility. Now you will find that
20 this happens. It will, perhaps, be more prevalent in
21 some provinces than others but I do not think you can
22 say it will not form, just as much as any other expense,
23 a cost of education.

24 COMMISSIONER GRANT: I would like to ask
25 you a question about the standardization of the curriculum.
26 Does that come under you? Have you, as a trustee
27 organization, anything to do with that or are you
28 concerned about standardization of curriculum throughout
29 Canada?

30 MR. PLACE: Well naturally we are concerned.



1 I have done a great deal of talking, coming from Central
2 Canada and I have got certain views. I think Mr.
3 Nicks hasn't said anything here. He comes from Sask-
4 atchewan. I know they have some views on standardization
5 of curriculum.

6 MR. NICKS: We believe in a minimum
7 standardization of curriculum for the simple reason the
8 ability of our population -- I am not speaking of
9 Saskatchewan alone. I am speaking of Canada -- we est-
10 imate that there are in excess of 40,000 school-age
11 children that move each year. 60,000 school-age children
12 move from one province to another and a large number of
13 them do run into difficulties in picking up again where
14 they left off.

15 In fact we even find there are variations
16 within a province. People moving from one community
17 to another, and again we run into this problem with
18 construction staff, teachers, they feel if we try to
19 tie them too closely to a standardized programme, there
20 is no room for individual level or more professional
21 treatment.

22 We have to balance one against the other.
23 It's all very well to tell the teacher in British
24 Columbia you must teach exactly the same course, the
25 same curriculum as a teacher in, say, Nova Scotia but
26 I do not think you will get a good level of instruction
27 if we were to go too far in that respect.

28 COMMISSIONER GRANT: As to the choice of
29 curriculum, has your body anything to do with that within
30 your respective Province?



C13 1 MR. NICKS: Only in the advisory capacity.

2 COMMISSIONER GRANT: That is entirely handled
3 by the Department of Education?

4 MR. NICKS: Primarily, yes, in consultation
5 with the teachers and with their trustees.

6 COMMISSIONER GRANT: Does the same apply
7 to the qualification of teachers?

8 MR. NICKS: In general I would say, without
9 exception, certification and so on is a provincial
10 responsibility.

11 COMMISSIONER GRANT: Sometimes the criticism
12 of our education system is that a pupil is no better
13 than the teacher who teaches him and as a general state-
14 ment are you concerned, as a body, with bringing such
15 pressure as you can to bear upon the authorities to
16 see that there is an improvement in the type of teacher
17 that is being hired and (a) this is upon their ability
18 to teach? Now it has recently come to my attention
19 that the universities hire highly qualified people to
20 head a department or to take a position in a given
21 department but that they are more concerned with the
22 qualification of that person, the degrees which he
23 holds, the universities from which we has graduated,
24 than they are with his ability to teach.

25 Now do you consider that this is an area
26 in which our elementary and secondary schools are improving
27 or is there a deficiency there?

28 MR. NICKS: I would like to feed that
29 question to Dr. Hanson and let him answer it.

30 DR. HANSON: We think the university is



C141 concerned with the research capacity of the individual. The
2 university has a research function as well as a teacher
3 function or, in other words, it becomes a college or
4 glorified highschool, as someone put it to us.

5 COMMISSIONER GRANT: A man might be hired
6 by a university to work in a research capacity and never
7 have to appear before a class?

8 DR. HANSON: Furthermore, some of these
9 people are very good teachers.

10 MR. KLINCK: In Ontario the attempt at present
11 is to make teacher training a separate job, an extra
12 year after highschool, or an extra year after university.
13 It has been I think in the last few years that a great
14 deal of attention has been paid to teaching techniques
15 and the result has been that some of our teachers just
16 haven't got enough education to teach and they are more
17 deficient in education, general education than they
18 are in training for teaching.

19 In all fairness to these Western Provinces,
20 I think we should say in Ontario that we are alarmed
21 by a situation which is developing which means that half
22 of our teachers in Ontario have less than five years
23 of experience, with the result that we pay these people
24 minimum salaries. That keeps our educational costs down,
25 but I think that it keeps the quality of education down
26 as well.

27 In Alberta and British Columbia where they
28 are demanding university graduation as a requirement for
29 a teaching certificate, and they hope to make it completely
30 compulsory in the next few years, I think their tenure



C15 1 of office is longer. More people reach higher scales
2 in a salary schedule and the result, of course, is
3 greater cost in the overall expense for education.

4 COMMISSIONER GRANT: You are referring there,
5 Mr. Klinck is it?

6 MR. KLINCK: Yes.

7 COMMISSIONER GRANT: You are referring there
8 to post-education degree with is taken after the
9 fifth year of university?

10 MR. KLINCK: It is not called that. It is
11 called a highschool assistant's certificate or highschool
12 specialist certificate.

13 COMMISSIONER GRANT: It is like a normal
14 college course is it?

15 MR. KLINCK: For elementary school teachers
16 but for highschool teachers it is an extra year at the
17 Ontario College of Education.

18 DR. HANSON: Could I pursue the question a
19 little further? I think in a fully-developed university
20 department you have the professors, the associate
21 professor and the assistant professor. These are the
22 people who are expected to have the PH.D. degree. In
23 addition to these people, we have lecturers who are
24 with us for a year or two before they go on to their
25 doctorates, and we have a number of graduate students
26 who practice-teach while they are with us as teaching
27 assistants. We have a varied group in a fully-
28 developed department which we happen to have in Alberta.
29 We didn't at one time.

30 COMMISSIONER GRANT: I remember seeing a



C16 1 picture, I think it was This 20th Century, put out by
2 the Prudential Insurance Company and it was contrasting
3 the highschool education curriculum as it existed in
4 the United States with what was available, or what has
5 been taught in Russia and the contrast was very marked.
6 The curriculum in the United States would permit a
7 person to graduate by taking a course on household
8 economics, a man may take that, or something like that.
9 While I don't know that we face that in Canada yet,
10 it seems to me that we need to improve our curriculum
11 of our teaching if we are going to provide all the
12 educational dollar.

13 MR. PLACE: I think your remarks sir in
14 respect to the American and Russian education and your
15 example are perhaps something that strikes the fancy
16 of the public.

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/RPS 1 This is the kind of thing that newspapers
2 pick on generally, the differences of the level
3 of education between the United States and Russia is
4 much less than the example you have quoted, and a
5 great deal of the difference.

6 COMMISSIONER GRANT: I didn't want to say
7 the whole system was based upon that example.

8 MR. PLACE: There are certainly examples
9 of that in the United States. The other factors that
10 I think you have to take into account when you are
11 considering a country like the United States or Russia
12 is the difference in what I will call the working
13 conditions. In Canada and the United States it is
14 left pretty well up to the student as to whether he
15 is going to take advantage of what is offered to him
16 or not. The only sanction there is that if he makes
17 a pest of himself, that he delays the progress of
18 other students he may be expelled from the school, whereas
19 in Russia if he doesn't keep up to certain determined
20 levels of progress, to use a slang expression, it is
21 off to the salt mines. If we had some kind of similar
22 method of applying pressure here our results, I am sure,
23 would be equal to or better than they have got in
24 Russia. I am suggesting we should have that because
25 it does not tie in with our type of heritage or our
26 thinking or anything else, but it is the underlying
27 fact.

28 Getting back to your question, which I
29 think is are school boards interested in getting the
30 better qualified teachers they can, I think that is



Q2 1 perfectly true, but you put your finger on a question
2 which is a very sore one for school trustees, and that
3 is because of the method of remunerating teachers that
4 had been forced on school trustees generally through
5 the pressure of teacher associations we have been forced
6 into unelastic fixed scales of pay where any increases
7 are based either on increasing length of service or
8 alternatively higher scholastic qualifications without
9 any regard as to the actual quality of performance
10 of teaching. We would like to have a system of merit
11 pay. I think that school trustees generally would be
12 ready to put a floor on teachers' salaries, but we
13 object, and object very strenuously to be forced to
14 have one uniform rate of pay for every teacher with
15 exactly the same academic qualifications and the same
16 number of years of service. We think it is deleterious
17 to teaching and that is one great area of difference
18 between school trustees and teacher associations.

19 MR. KLINCK: Your question as to curriculum --
20 in Ontario there is an elastic curriculum, part is
21 elastic. It may be treated on a local basis the
22 teachers are allowed to choose from a group of
23 textbooks recommended by the Department and certain
24 parts of curriculum may have a local slant. The school
25 board has to pass, to give approval to the use of textbooks
26 in its jurisdiction and also to any local programmes
27 that are adopted. I believe, unfortunately, very often
28 the recommendations of the superintendent of schools
29 is accepted without question, but in reality a school
30 board can say we don't want this particular curriculum



C3 1 in our school, we don't want to use this particular
2 textbook. This is the only control the board has over
3 curriculum.

4 MR. JOHNSON: Education being a provincial
5 matter, the variations from province to province are
6 extreme. I can point out many defects of our system.

7 COMMISSIONER MILNE: Mr. Johnson, I think
8 this morning that you made reference to the technical
9 vocational school, and in approaching cost factors you
10 suggest that more will be done in that respect in the
11 future than has been done in the past. The question I
12 have in mind relates to something I have heard fairly
13 frequently, even this week on a programme on the air.
14 I think it was in connection with a large American
15 city where they were referring to the excellent
16 technical programme, excellence of the teaching,
17 excellence of the equipment, excellence of the building.
18 There was almost no acceptance of this course. On
19 the other hand in this programme they gave more
20 emphasis to the standard university objective. Now,
21 I don't know to what degree this problem exists in
22 Canada. I would be interested to know if the Association
23 does have this problem or has anything to suggest.

24 Is there public acceptance of the technical programme?

25 MR. JOHNSON: First of all with the
26 exception of Ontario I think technical education at the
27 public school board level is definitely in its infancy.
28 For example my own board has just built and opened its
29 new vocational technical school purchased by the
30 Dominion and Provincial Governments. We have an



C4 1 enrolment -- an anticipated capacity of eleven hundred.
2 We had sixteen hundred applicants and eventually we
3 accepted fourteen hundred. We have been very encouraged
4 by the students who have enroled. Nobody can assure
5 that this programme will be a successful one. I have
6 personally visited many American vocational schools,
7 Minneapolis being a typical example. This programme
8 in Minneapolis has been successful for a 20-year
9 period. It has been accepted by the community. The
10 graduates have prospered. It definitely affected
11 beneficially the drop-out problem and it is highly
12 regarded in the community. Quite frankly, one of the
13 greatest problems experienced is the pressure of the
14 academic part of the school system to use it as a
15 dumping ground. Because of the extreme cost factor
16 this must be avoided. I think school boards are
17 extremely conscious of this. I am not sure that I
18 have answered your question, but we have no experience.
19 I think we are optimistic of the role which the
20 vocational school will play, both in the life of the
21 student and in the economic life of the community.

22 THE CHAIRMAN: On page 28 I observe at the
23 bottom of the page you say:

24 "We would urge the senior governments and
25 "universities to devise means whereby priv-
26 "ate contributions to higher education and
27 "even vocational education be increased".

28 It just occurs to me there is a good deal
29 without government getting in the act at all. I happen
30 to be a trustee of a non-profit plan for education and



C5 1 the public has beat a heavy path to our door, a great
2 deal in excess of our anticipation. I think large
3 segments of the public are quite prepared to meet
4 their higher education costs if it is on a basis where
5 they can do it. What I say to you is let us not leave
6 out, let us not turn to senior governments to do this
7 sort of thing, see what we can do to help ourselves.

8 On that page there is a question I would
9 like to put to you. I think it is a very significant
10 one. You suggest that cost will re-sort themselves
11 so that Federal Government will resume major responsibil-
12 ities as regard to higher education and with regard
13 to vocational education. Of course, I say with regard
14 to this, is this acceptable to the provinces? I suppose
15 it is so long as the provinces don't relinquish
16 control, but there must come a point where it is very
17 hard to maintain control where the costs are being
18 paid by somebody else?

19 MR. JOHNSON: This hasn't been the
20 experience, as I understand it where the Federal
21 Government has made contributions to the universities.
22 The universities say they have exercised absolutely
23 no control.

24 THE CHAIRMAN: That, I believe is true
25 up to now.

26 MR. JOHNSON: Quite frankly as long as you
27 have virile local management which typifies the
28 trustee system we don't see any dangers of Federal
29 or even Provincial controls increasing.

30 MR. PLACE: I think the way in which the



D6 1 Federal Government has been handling the expenses
2 of technical and vocational training to date has certain-
3 ly established certain protections. For example
4 the Federal Government cannot and will not make a
5 contract between an individual school board and
6 itself. It has to be a building that is financed
7 by means of overall agreement entered into between
8 the Federal Government and the particular province
9 in which the building is located, so while it may be
10 the individual school board that is running the
11 building, which is designing the building and so on,
12 the actual financial agreements and everything are
13 channeled through the Federal Government to the Prov-
14 incial Governments, and the Provincial Government to
15 the local school board. Certainly with the present
16 feelings amongst the Provincial Governments I think
17 they are quite able to look after their own interests
18 vis a vis the Federal Government at the moment. There
19 are certainly constitutional problems in all these
20 things. I am afraid there must be. I quite agree
21 sir. From the way we have worded our reports -- frankly
22 even among the school trustee associations there are
23 wide divergencies of whether it should be more direct
24 participation or whether it should be done more today
25 through the provinces. We endeavour to remain completely
26 impartial on that score and simply to say the problem
27 is here, this is what it is. This has to be settled.
28 It could be done in two or three ways.

29 THE CHAIRMAN: Thank you. In your
30 introductory remarks, Mr. Place, there was one matter



D7 1 I didn't understand. You said that the cost of
2 2 education could be best met by redivision of responsib-
3 3 ilities and in the short term there were two ways
4 4 of proceeding, one was for the Federal Government to
5 5 reduce tax rates and so permit the provinces to
6 6 increase the area of taxation and the other one, and
7 7 this is the one I didn't understand, deductions by
8 8 individuals of higher tax rates is what I wrote down.

9 MR. PLACE: At the present time, for
10 example, in the Province of Quebec we are allowed to
11 deduct, speaking from memory, I think it is the
12 amount of provincial income tax that we pay up to
13 thirteen per cent of the Federal income tax. My
14 suggestion simply was that paying the amount of 13
15 per cent. You might want to change it up to 15,
16 eighteen or twenty per cent, whatever would be the
17 proper amount.

18 THE CHAIRMAN: Thank you, I understand.

19 COMMISSIONER PERRY: It is now sixteen.

20 MR. PLACE: That is this year. I haven't
21 made my income returns for 1963.

22 COMMISSIONER PERRY: It will go up to 21
23 within five years.

24 COMMISSIONER WALLS: Could I ask a question:
25 is it your intention your supplementary income tax
26 and the Provincial income tax is going to augment
27 property tax or replace existing property tax?

28 MR. PLACE: In our brief I think we made
29 it quite clear that we feel property tax has to remain
30 because it is, in fact, the only tax which can apparently



D81 remain under the control of your local authorities who
2 are actually administering the tax. We feel we should
3 allow them to have elasticity to develop what in
4 educational circles they call, lighthouse procedures
5 so they can go ahead in certain cases, and finally,
6 in education we must give them some flexibility and
7 the only way you can do it is by some means through which
8 they can raise additional taxation when they think it
9 is desirable. Certainly we feel that more and more
10 of the basic cost of education is going to have to come
11 from sources of taxation other than real estate tax and
12 the way things are now divided up this can only come
13 from the Provincial or the Federal Government.

14 COMMISSIONER WALLS: The Province is
15 already paying approximately 55 per cent out of consolidated
16 revenue. Is there any danger if you find legislation
17 or encourage the provinces to go into the income tax
18 field that they will use that to compensate for the
19 55 per cent they are presently having out of consolidated
20 revenue?

21 MR. PLACE: I don't think there is any
22 doubt there is also danger. What we would like is for
23 school trustees in the province to say we will allocate
24 a certain percentage of everyone's income tax for
25 education and it will go direct to the school boards.
26 That, I am afraid, is an idealistic point of view.

27 THE CHAIRMAN: Thank you, Mr. Place.
28 I think we will break for 10 minutes at this point. We
29 are really at the matter of your concrete recommendations
30 and we will come to them after the break.



D9 1 ---A SHORT RECESS.

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THE CHAIRMAN: Let us proceed to the conclusions in your report, the recommendations which are on page 31 running through to page 34. I don't know that we want to deal with recommendation A re-adjustment of Federal Provincial taxing powers. Have you any questions here on that?

Moving on to B, again while we as citizens are certainly very interested in this I am not sure it comes within our job. Certainly C does.

COMMISSIONER WALLS: I have one on C too.

THE CHAIRMAN: You say:

"It is contrary to good practice to impose taxation on a governmental group which must in turn impose taxation to raise the revenues required to pay such taxes".

Perhaps that is so. I don't know, but it is not contrary to proper accounting. If one wants to know what the final cost is in this area the costs may have to be moved through non-profit units or departments which are passed on to others. If one doesn't do that one doesn't know what the final cost is. Now, we have had recommendations that it is in the interests of all, knowing what the cost of all our services are and we should not in any way take the view that those which don't have income should not be taxed, even going so far as to tax religious institutions and recover it in some other way. Why do you say it is contrary to good practice?



D10 1 MR. PLACE: I think we say that because
2 we feel it is illogical that one government body should
3 be entitled to tax another government body for services
4 which, in fact, the other government body doesn't get,
5 which is basically what is the case. Take, for example
6 -- you have the Gill Report on unemployment insurance
7 recommending that teachers, for example, as a group
8 should be included within The Unemployment Insurance
9 Act. That is effectively going to mean that each teacher
10 is going to have to contribute approximately \$50 a year
11 for unemployment insurance and each school commission
12 is going to have to contribute the same amount. In my
13 particular school board we have approximately four
14 hundred teachers. If you multiply four hundred by
15 one hundred you have a total expense of \$40,000. We
16 have already had it indicated to us by the Teachers'
17 association if they have to pay this \$50 they are
18 going to increase their salary demands by an amount
19 sufficient to meet, not just \$50 but the \$50 plus the
20 income tax they are going to have to pay on the additional
21 increment, so, you are in fact directly -- this is the
22 point that we make in the section -- you are siphoning
23 out of specifically allocated revenues at an inferior
24 level of government, if you want to call it that, that
25 belong to the inferior level of government, giving with
26 the one hand and taking back with the other and we feel
27 this is entirely wrong.

28 MR. JOHNSON: It might be interesting to
29 this Commission to consider briefly an experiment conducted
30 by my school board on the purchase of books. We found



D111 by purchasing from the various sources open to us that
2 we would save 25 per cent on the purchase of our school
3 library books by purchasing them directly in the
4 United States.

5 THE CHAIRMAN: Why so?

6 MR. JOHNSON: Duties, even though there
7 is a means of achieving exemptions for most of these
8 the publishers, in fact, don't take these exemptions.
9 They are imposed on the price. The means to secure the
10 exemptions, the proof that they will be used by
11 educational institutions is too difficult to result
12 in the exemptions which are prevalent in the legislation.
13 We actually gave 25 per cent by purchasing in Puget
14 Sound.

15 THE CHAIRMAN: Were you satisfied that the
16 difficulties were real or were the publishers simply
17 lazy?

18 MR. JOHNSON: It is to the publishers'
19 interest not to claim the exemptions. We are satisfied
20 of that, the experiment showed that.

21 COMMISSIONER WALLS: With respect to this
22 statement "This Association takes the strongest exception
23 to all Federal legislation which imposes a taxation
24 directly or indirectly on any subordinate provincial
25 level of government" -- your opening statement. Is
26 it not a fact that most of your school supply, as your
27 books, your desks, your blackboards, your duplicating
28 machines if you have them, or printing machines, your
29 scientific apparatus are all sales tax exempt?

30 MR. PLACE: It is true a very large area of



D12 1 it is. That is exactly why we say that the whole thing
2 should be so. The Federal Government has seen fit in
3 many cases to grant these exemptions.

4 COMMISSIONER WALLS: It does give this
5 tax exemptions on the items I have mentioned. I under-
6 stand you successfully followed this up when they
7 imposed the removal of the exemption on building materials
8 so you are now excluded from that. I would like to ask
9 you something about that. Any Federal tax ~~and~~
10 you pay is, in reality, paid by the taxpayer, whether
11 municipal taxpayer or provincial taxpayer so why should
12 you expect sales tax exemptions on building materials
13 for school any more than the taxpayer should expect
D3 14 it on the other buildings he pays for.

15 MR. PLACE: You are right, Rob Peter to pay Paul. It doesn't change
16 the cost at all. It changes the distribution,
17 the cost is going to come from a given level. In 1867
18 when The British North America Act was put through there
19 were distribution of responsibilities in taxes and at
20 that time school trustees didn't have any of these
21 taxes to pay. Now you have circumstances which have
22 been radically altered. You have all kinds of taxes which
23 we have to pay out of this one small area of tax
24 collection which was given to us. We are not in the
25 position of the Federal Government or the Provincial
26 Government to collect any additional revenues. If income
27 goes up in terms of dollars our tax revenues go up and
28 real estate becomes less. As the income goes up because
29 they are in a higher bracket of tax they have fewer
30 dollars left to spend on local real estate and other



D131 matters whether the purchasing power of the dollar changes
2 or not.

3 THE CHAIRMAN: If I understand it you say
4 that it doesn't change the tax burden between the tax-
5 payers and Mr. Walls' says that your proposals would
6 change the burden between the taxpayers.

7 MR. PLACE: We contend very strenuously that
8 it affects our situation. Whether it affects the situation
9 of the other individuals or not I rather doubt because if
10 it costs less through us to the individual taxpayer for
11 education it costs him more to the Federal Government and
12 than the two would balance off.

13 COMMISSIONER WALLS: I think you prefer to
14 be Paul and not Peter.

15 MR. NICKS: I think there is another factor,
16 the individual makes a personal choice whether or not
17 he makes that purchase on which this may be paid.

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MR/RPS 1

2 MR. INICKS:: At the school board level
3 there is a tax levied against him with no alternative
4 but to pay. The alternatives to pay are eventual
5 loss of property. In one case he is required to pay
6 it and in the other he can make some choice in the
7 matter.

8 COMMISSIONER WALLS: I don't want to pursue
9 the subject but of course you are exactly in the
10 same situation as the municipality who decides to
11 build an auditorium. It has a by-law whether for
12 a school or an auditorium. He has the same choice
13 in both instances.

14 COMMISSIONER PERRY: I would just like to
15 pursue that to the extent of asking whether there is
16 a principle at issue here or a problem? It doesn't
17 sound as though there are many things that a school
18 board buys which are subject to tax.

19 MR. PLACE: Well there are a great many
20 things that we know that taxes do creep into. I think
21 Mr. Walls made the statement earlier that the sales
22 tax was off all building materials completely for
23 school boards.

24 COMMISSIONER WALLS: No, it's on the
25 same graduated scale as the other building materials.
26 It's in three steps.

27 MR. PLACE: To be quite frank, I am not
28 an expert. You realize that is a very complicated
29 field of taxation but while the Minister has said that
30 the proposed Federal Sales Tax is being taken off
building materials, as far as the school boards are



E2 1 concerned we are informed by our architects and
2 contractors that this is only partially the case and
3 that in fact there is still in many cases a substantial
4 amount of material which is subject to sales tax. Now
5 it may be for technical difficulties, or other
6 difficulties, that they have not been
7 able to get rid of it, but it is there.

8 COMMISSIONER PERRY: Let's put it another
9 way: What would your representations have been before
10 the last budget on this subject?

11 MR. PLACE: I think we would have still
12 made the same representations because there are
13 excise taxes. There are duties on various kinds of
14 materials which, in some cases, there is no provision
15 for them being recovered in the case of school boards.
16 In other cases there are provisions for recovery but
17 they are inadequate.

18 COMMISSIONER PERRY: You made no attempt
19 to put some sort of a dollar value on this.

20 MR. PLACE: No, we haven't. I will be
21 very frank: we feel this is a matter of principle.
22 You asked me whether -- what our feelings were in
23 respect to this. I may say that we have made represent-
24 ations to the Federal Cabinet both last January and
25 the previous year and in arriving at those represent-
26 ations we have put forward the same principle.

27 Now we did not receive any opposition from
28 the Cabinet in either instance to the principle. They
29 did say there were technical difficulties which in some
30 cases made it difficult, if not impossible to do.



E31 COMMISSIONER BEAUVAIS: Are you exempt
2 from the Provincial State Tax of Quebec, the six per
3 cent?

4 MR. PLACE: No.

5 COMMISSIONER BEAUVAIS: You have to pay
6 it?

7 MR. PLACE: Yes. The six per cent sales
8 tax applies to the Quebec School Board. We have made
9 representations to the Provincial Government in
10 Quebec that that should not be applicable but we have
11 not received any satisfaction. However, in reading
12 between the lines we suspect they have got so many
13 irons in the fire they haven't got the time available
14 to deal with the matter.

15 COMMISSIONER BEAUVAIS: What about the
16 other provinces that levy Provincial Sales Tax?

17 MR. PLACE: I cannot speak of them from
18 personal experience.

19 MR. NICKS: We have run into that
20 problem in Saskatchewan. We also made representations
21 to the Provincial Government. There it is a five
22 per cent tax.

23 MR. PLACE: While we made representations
24 to Quebec the Prime Minister said well don't we give
25 you the money back with the other hand, so what are
26 you complaining about?

27 COMMISSIONER WALLS: What particular item
28 is it that you have in mind that you pay sales tax
29 on? Have you any one particular item in mind?

30 MR. PLACE: There are certain classes of
(PAGE 4209 Follows)



E4 1 books. There are certain classes of printed material,
2 things which are used, for instance various types
3 of materials, particularly in the technical and
4 vocational training. In the fields of technical and
5 vocational training you have to be extremely careful,
6 for example, to claim back for duties, and so on for
7 all kinds of equipment. In some cases it is not possible
8 to do it.

9 COMMISSIONER WALLS: Technical and
10 scientific apparatus to schools is exempt. I thought
11 perhaps you were referring to school buses as the
12 municipality gets a sales tax exempt on fire engines.

13 MR. PLACE: Well I think that school
14 buses are certainly an item of very considerable
15 interest to many school trustees and while I have not
16 thought of that particular instance, it certainly
17 would be true. It is a matter of principle; that we
18 feel that school bodies that have a particular area
19 of revenue allocated to them, and which is allocated
20 under a predetermined scale or order of taxation should
21 not, therefore, be drained away through taxes imposed
22 by some other body.

23 COMMISSIONER PERRY: I think in judging
24 a principle that one likes to have some idea of the
25 problem that the absence of that principle is causing.
26 At the moment it does not sound as though it is a
27 very great problem.

28 MR. NICKS: Your general school supplies,
29 paper, pencils, erasers, ink, and this sort of thing,
30 it is difficult to classify particularly any item.



E5 1 They are all subject to tax.

2 COMMISSIONER WALLS: School supplies
3 are listed amongst the exemptions.

4 MR. NICKS: You can get it on books and
5 certain type of equipment but it is very hard to identify
6 these other items being used, that is from the
7 manufacturing level to the time they reach the school
8 board.

9 MR. JOHNSON: I think, Mr. Chairman, any
10 tax which requires application for rebate a larger
11 school board may be in a position, due to the amount
12 involved, to take advantage of these but the great
13 majority of school boards through their size do not
14 and cannot feasibly take advantage of these rebate
15 provisions.

16 COMMISSIONER WALLS: You mean they do not
17 know that they should make application for rebate?

18 MR. JOHNSON: They do not have the technical
19 help to advise them to take advantage of exemption
20 provisions.

21 COMMISSIONER WALLS: Would that be a good
22 position for your organization to take?

23 MR. PLACE: Probably it is and if we get
24 through all the changes that we want to get through,
25 maybe we will get sufficient extra financial help from
26 our member schools, or we will be able to afford a
27 staff of experts which is needed to go into this
28 very complicated situation and supply you people with
29 the figures that you want. At the moment, we cannot
30 afford it.



E6 1 THE CHAIRMAN: Moving on to E.

2 COMMISSIONER PERRY: There is a problem
3 remaining here in that if any further extensions were
4 given, they would have to be by, of course, the rebate
5 procedure because you are getting into areas of articles
6 of general consumption and the only system that would
7 work would be the rebate procedure. You say it doesn't
8 work with the smaller school boards?

9 MR. PLACE: There are other conditions in
10 the future. There are certain proposals in respect to
11 old-age pensions. Now how are these going to affect
12 school boards? Are the Provincial Governments who already
13 supply teachers with very handsome pensions -- the
14 average teacher, for example, in the Province of Quebec
15 who works 35 years, which is the normal length of service,
16 ends up with a pension of 70 per cent of what is virtually
17 the final pay. Now that is a very high pension. It's
18 much higher than you would find in industry or anywhere
19 else.

20 Are school boards, as employers, going to
21 be compelled to make a corresponding contribution to the
22 Federal Government for old-age pensions? If we are,
23 this is going to be a very substantial extra expense.

24 COMMISSIONER PERRY: A hundred thousand
25 employers in the country are asking this right now.

26 MR. PLACE: I know, but they at least have
27 a means of recovery. Our way of recovery is largely
28 fixed. That is where our problem comes in. Here you
29 have the Federal Government which is continually putting
30 on further burdens against our sole source of tax, the



E7 1 real estate tax.

2 MR. KLINCK: There are continual rumbles
3 about this real estate tax in Ontario principally where
4 the school board objected to absorbing so much of their
5 total budget and taxpayers in general I think objected
6 to the high mill rate for education. I don't know that
7 it is based on the ability to pay as much as on the
8 unwillingness to pay and yet these people are the people
9 who elect school boards and members of Parliament.
10 If the tax on real estate is increased, naturally there
11 will be somebody who will say they will reduce the tax
12 on real estate. People generally do not seem to care
13 as much about sales taxes and about hidden taxes as they
E2 14 do to this one. This is one right before them and
15 come to know one sum once a year, so much or so many
16 dollars and cents on the education and because it comes
17 to them in that form, they would agitate about it at
18 least once a year when they get their tax deduction.
19 Usually the objection is a real one.

20 MR. PLACE: But we can have a real estate tax
21 taken off and it may come to us as income tax and our
22 problems would be a lot less.

23 THE CHAIRMAN: That suggestion has come before
24 us previously. I do not think it is up to us to
25 recommend either way on it. It is probably up to you to
26 do that.

27 MR. PLACE: We have not suggested that it be
28 done because we have other objections and we think people
29 should realize the amount of the bill they are having to
30 pay and they should be conscious of it.



1 THE CHAIRMAN: We cannot have it both ways.

2 MR. PLACE: That is correct.

3 COMMISSIONER PERRY: I think we should say on
4 the basis of the several million words we have heard so
5 far there aren't too many people who are happy about
6 any tax.

7 THE CHAIRMAN: Moving on to D, you recommend
8 there the deduction from property not subject to income
9 all real estate taxes and interest paid on mortgages.
10 This is not the first time these recommendations have
11 been made to us. What we are, of course, concerned
12 about in such a recommendation is that it does make
13 quite a distinction between the tax burden on tenants
14 and home owners. Would you suggest that some
15 consideration be given to tenants?

16 MR. PLACE: Well I don't know that you should,
17 because I think in fact the tenants are already getting
18 the benefit of that because he is renting them the
19 place and at the present time is effectively being
20 able to charge off these items as expenses.

21 THE CHAIRMAN: That is correct, but your
22 simile is incorrect if I may say because he has got
23 income coming in which comes out of the tenant and
24 certainly is liable to deduct those things against his
25 income to arrive at the net on which he pays tax. In
26 order to equate the tenant to the home owner you would
27 have to carry through that deduction against the tenant's
28 income. Of course, that is off his own living expense.

29 MR. PLACE: Well whether that is so or not,
30 and I must confess that I still am not persuaded by your



1 arguments sir, I maintain that this is still a legitimate
2 method of proceeding. I am sure that all of you are
3 well aware that this is done in the United States.
4 Now I won't say that ~~is a student of taxation.~~ ~~it is~~.
5 ~~And~~ I won't say that I consider it is a good thing,
6 tax wise, to increase the number of exemptions, but
7 taking into account our particular situation in Canada
8 where we have this division of responsibility and
9 revenues as between the Federal Government and the
10 Provincial Government, I say then on the balance of
11 convenience theory that this is a legitimate method
12 because this is a way in which greater revenues or
13 greater value can be given to the real estate tax at
14 the local level.

15 There is no question that it is going to cost
16 the Federal Government money to do it and to use the
17 expression again you are robbing Peter to pay Paul.

18 THE CHAIRMAN: Any questions on this one?
19 Educational capital cost allowance. I must say this
20 intrigues me. We have heard this proposal in a different
21 form, namely, that the cost of education should be
22 capitalized and amortized against the man's earning
23 years at such time as he realizes on the education. You
24 put it on the basis of being a loan amortized in respect
25 to a loan to be allowed as a deduction as well as
26 interest. Your proposal, of course, is to make a
27 distinction between those people who borrow money and
28 those people who, either by their industry, work during
29 the summer or taking a job at the time they receive
30 their education do not go into debt. I wonder if the



1 person who goes into debt is more deserving than the
2 man who does not?

3 MR. PLACE: I think in some cases perhaps we
4 could have carried our proposal a little bit further and
5 said everybody should be allowed to capitalize the
6 cost of their education above a certain level, and then
7 to write that off in the manner which we have suggested
8 but we do feel that one of the areas, what I think our
9 statistics show the greatest increase in cost in the
10 future is going to be at the level above the present
11 where the secondary school level is. There is a great
12 wish on the part of all Canadian parents to have their
13 children go to university. This is almost a form of
14 social snobbery but it exists. It is there.

15 You are going to have more and more continued
16 pressure to provide education at the university level,
17 or these higher levels for all individuals, in many
18 cases regardless of whether or not they are capable of
19 taking it or handling it. We feel that there should be
20 a method available whereby anyone who has the ability
21 should be able to get the education commensurate with
22 that ability without regard to his or her financial
23 circumstances.

24 We also feel that there should be some means
25 whereby people do not go lightly to university and
26 realize that university and these other things are
27 costly and they, in turn, are going to pay a large part
28 of the cost of their education. In other words the use
29 of what Mr. Ham behind me would say we are advocating
30 a degree of coinsurance. We feel that this is the only



1 way in which you will retain some restrictions on an
2 irrational and uncontrolled development of education
3 at the university and higher levels and we feel that
4 this, the same as other social expenditures in some way
5 is going to have to be controlled. We feel this is one
6 way in which it might be done.

7 DR. HANSON: I might say this: If you induce
8 people to get used to the idea of taking loans to go
9 to university, we would relieve the public sector of a
10 certain amount of the expense of higher education.
11 This provision is necessary to encourage students to
12 take out a loan.

13 THE CHAIRMAN: You would restrict this to
14 students who borrow money?

15 DR. HANSON: It might be. What is required is
16 to make students and parents in the Canadian society
17 accept the idea of loans. We have certain difficulties,
18 you know, in getting students to borrow money at the
19 university. They are very hesitant about this. They
20 do not like to leave or to graduate with a loan which
21 they have to repay. Well speaking personally I think
22 that this is and would be a very sound procedure.

23 THE CHAIRMAN: I would think, though, the
24 alternative to that is either adding up all education
25 costs and then amortizing ^{them} ~~in~~ in the future or to say
26 that a Bachelor of Arts is entitled to take for five
27 years after graduation \$1,000.00 a year from his
28 income. A Master is entitled to deduct it for seven
29 years, a Ph.D. for ten years, something of that kind
30 but you think it should be kept to where he can borrow



1 money?

2 MR. PLACE: This is an initial step. I will
3 be quite frank: We came to this reasoning because we
4 felt that there ought to be some setup whereby the
5 average individual could go and obtain the financial
6 means to go to university. What we had in mind was a
7 scheme to some extent patterned after what is done
8 in the housing field whereby the Government would go
9 to the banks and say: You will make educational loans.
10 You will make them at certain rates of interest. We
11 will guarantee repayment of these loans in the event
12 that the individual falls down. Then you could have a
13 series of payments over 15 or 20 years, if need be,
14 whereby these loans would be paid back.

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B/RPS 1

MR. PRICE: You can also work in the

2 element of insurance in the case that an individual
3 dies. Our thought, quite frankly, was to provide a
4 means whereby any individual, regardless of his
5 monetary position could take advantage of the education
6 that his abilities allow him to. Perhaps we should
7 extend the idea a little further. I see nothing too
8 repugnant in doing what you say, allowing capitalization
9 on the entire cost of education above a certain level,
10 and to apply the same principle to it. That would seem
11 logical under the circumstances.

12 COMMISSIONER GRANT: The proposal has the
13 virtue of giving assistance to the deserving student,
14 because, I would assume that it is only the student that
15 is interested in getting the education, university
16 education that would go to the extent of borrowing the
17 money to do it?

18 MR. PLACE: That is right. That is one of
19 the things that interests us because we feel it is one
20 element, the co-insurance -- there would be an element
21 of control that comes in if the individual knows he
22 will be paying part of it he will not take that expense
23 lightly.

24 There is one other question that has been
25 raised here, what do you include in the cost of
26 education. Do you include the cost of living during the
27 time he is attending university. Quite frankly, as you
28 can see, we haven't touched on that, but your Chairman
29 has raised the question of the individual who works during
30 the summer and earns part, earns some money which allows



F2 1 him to go to university, whether the proposal that we
2 have in mind should be extended to cover that or something
3 more than just the cost of tuition, or whether it should
4 be limited to that. I don't know that we are prepared
5 to say that. We hope this is one means in which the
6 high cost of certain types of education can be tackled
7 and controlled and financed on a sharing basis in a
8 logical way over a period of time. Certainly a great
9 deal of work would be required to iron out all the details
10 of any such scheme.

11 THE CHAIRMAN: Right now there are hundreds
12 of boys, and probably girls too who are paying their
13 way through university by some extraordinary effort. I
14 know of one young man who works at night as an orderly
15 in a hospital. I think his work hours are about 18
16 hours a day. I would hate to think that we would do
17 anything which would not encourage him to this kind of
18 exertion or which would in any way place someone who has
19 that kind of exertion on the same basis of paying like
20 that. It would seem to me that it should not relate to
21 the loan -- it ought to relate to the cost or assumed
22 cost. I think the cost is difficult to achieve and
23 what one would have to do, as you mentioned a few minutes
24 ago, is to assume X dollars per year of cost to be deduct-
25 ible over a period of time.

26 MR. PLACE: I think certainly that is one
27 way of handling the problem. As I said there are many
28 technicalities that would have to be gone into and
29 worked out on such a scheme. From the point of view
30 of principle we are strongly favouring the idea of a



F31 claim of this kind.

2 MR. JOHNSON: Mr. Chairman, in the example
3 you gave of the lad who worked 18 hours a day, he is
4 working 18 hours a day because he has no other choice
5 in relation to his ambition. If you furnish that lad
6 with another choice would he not possibly achieve a better
7 academic opportunity by being able to borrow and work
8 more hours on academic pursuits than he is presently
9 doing?

10 THE CHAIRMAN: There is a possibility there,
11 but on the other hand it might detract from other
12 characteristics of the boy that might be developed.
13 It is a hard judgment to make.

14 MR. JOHNSON: We would all agree individual
15 effort is a good thing and should be encouraged. Where
16 you do have a desire to such a degree to go to college
17 and you do have such cases such as you mentioned where,
18 effectively, an individual student is working 17 or
19 18 hours a day -- it is certainly going to have an
20 affect on their health in the long run if they keep up
21 doing that indefinitely. I think Dr. Hanson will agree
22 with me it invariably has an affect on their educational
23 studies and what they are getting out of their
24 courses.

25 DR. HANSON: Could I add to this the fact
26 that Canadian university students, a great many of them
27 have to work in order to earn sufficient money to go
28 through university and that is one of the greatest
29 stumbling blocks to rearranging universities and revamping
30 use of facilities.



F41 COMMISSIONER GRANT: You could make use
2 12 months of the year of the physical assets.

3 DR. HANSON: The students need four or
4 five months in order to make the money to come back the
5 next year.

6 THE CHAIRMAN: I notice some universities
7 are providing choices where you can work 12 months a
8 year and get through in three years and if you wish to
9 work and thus support yourself you can do it in four
10 years. It seems to me there may be an answer there.

11 DR. HANSON: We are exploring all kinds of
12 answers.

13 THE CHAIRMAN: I know some universities
14 are doing that right now in the United States. I don't
15 know about Canada.

16 COMMISSIONER GRANT: Of course the student
17 who doesn't need assistance could take a course during
18 certain months where employment is available such
19 as in August.

20 MR. KLINCK: Before we leave this point
21 we should not lose the point that there are young fellows
22 who work 18, 20 hours a day to establish themselves
23 in some other business and we are not feeling sorry for
24 them. I don't think it is fair to ask them to subsidize
25 a boy or girl who wants to be a highschool teacher, let
26 us take ~~as an~~ example, and subsidize them out of income
27 when he is going into some other business. People are
28 buying a plumbing business, let us say, for example,
29 and we are not subsidizing them in buying their
30 future occupation. I don't think it is fair to ask them



F51 to subsidize someone who is going to become a school
2 teacher. I think it is fair enough that they should
3 be given a loan to become a school teacher or lawyer
4 or doctor or engage in some other profession. We prov-
5 ide loans to young farmers who want to farm, but we
6 don't subsidize the young farmer directly as we are
7 planning in some cases to do with these university
8 students. I like the loan system myself. I think it is
9 the only fair way. As far as the highschool is
10 concerned that is accepted by the public, that highschool
11 education is necessary for a farmer, it is necessary
12 for a Bell Telephone linesman and therefore I think we
13 are justified in paying the cost of elementary and
14 highschool education but I don't think we are justified
15 in paying the total cost of university education as
16 some politicians seem to feel. They say university
17 education should be entirely free for those who can't
18 afford it. I don't agree with it.

19 THE CHAIRMAN: You are asking for special
20 concessions for a university pupil as opposed to people
21 buying plumbing establishments and so on. You make
22 the suggestion whether we do it by loan or otherwise
23 that it be deducted from income tax where the tax of
24 acquiring the plumbing business wouldn't be. I must
25 say I see a good reason for it. Higher education is
26 not only good for the individual but for the nation.
27 It would to some extent be justified.

28 MR. KLINCK: To a certain extent, but not
29 completely. Some say completely free university
30 education. I agree it should be subsidized to the



F6 1 extent it would help the national economy.

2 THE CHAIRMAN: I asked you that question
3 at the beginning and you people said no to free
4 university education, the individual should share
5 some responsibility for it.

6 MR. PLACE: I have heard some wild suggestions
7 and one of a highly radical nature you might be
8 interested in, that all attending universities should
9 be employed by the Federal Government and after he
10 completes his studies he is no longer an employee. They
11 pay him a salary and he pays taxes on his salary while
12 he is at university. I don't think that particular
13 type of approach would tie in with our economic
14 system and certainly not with our division of
15 responsibility under the B.N.A. Act.

16 THE CHAIRMAN: Anything else on E?

17 COMMISSIONER PERRY: I am wondering whether
18 we are verging on some sort of means test. This
19 argument has been put in terms of deserving cases. A
20 millionaire, if he was showing the acumen by which he
21 accumulated his million dollars, what he would do is
22 send his son to get his education through a loan and
23 he would qualify under this system.

24 MR. PLACE: Gentlemen, in view of the
25 graduated taxes that the millionaire is, perhaps paying
26 he should be entitled to this.

27 COMMISSIONER PERRY: That is what I am
28 saying, are you not suggesting some sort of means test?

29 MR. PLACE: Because of the amount of
30 taxes that man is paying, this is something to which he



F7 1 is paying and should get.

2 THE CHAIRMAN: He is entitled to that?

3 MR. PLACE: Jolly well right.

4 MR. JOHNSON: I think we ought not lose sight.

5 COMMISSIONER PERRY: That is the way nearly
6 every large loophole got into the Act.

7 MR. JOHNSON: I think we ought not lose
8 sight of the fact that as more and more students, a
9 higher percentage of our students attend university
10 the need for this sort of programme is definitely there.
11 Unless we explore these possibilities of making a means
12 whereby people who don't have the financial capabilities
13 of continuing their education have a course open to them
14 we may very well be faced with the problem of free
15 education or not. If we meet this problem before it
16 becomes a fact we will preserve our present belief that
17 higher education should not be completely free to the
18 individual. If we let it become acute it may very well,
19 in spite of the thinking of most of us, become a serious
20 social demand.

21 THE CHAIRMAN: Anything further?

22 Well, thank you, gentlemen, very much
23 indeed for coming to see us today and for providing us
24 with so much of interest to us. We have no further
25 questions. Is there anything further you wish to say
26 to us?

27 MR. PLACE: Only to express our very deep
28 thanks and sincere appreciation for the kind and courteous
29 hearing you have given us. I am afraid we have, perhaps,
30 at times strayed a little bit from the Terms of Reference



F8 1 of your Commission and perhaps saddle you with a few
2 problems of school trustees rather than the field of
3 taxation. I would like to express the very sincere
4 thanks of the Association and its officers for the
5 hearing you have given us today. Thank you.

6 THE CHAIRMAN: We were delighted to stray
7 with you.

8 THE SECRETARY: Mr. Chairman, in April,
9 as a matter of fact, April 22nd in Montreal you recall
10 Mr. Ham presented a brief on behalf of the Canadian
11 Underwriters' Association. That brief was Exhibit 10.
12 At a later date, July 2nd, Mr. Ham on behalf of the
13 Canadian Underwriters' Association presented a
14 supplementary brief to this Commission and on August
15 12th he presented an addendum to the supplementary
16 brief. He is here before you to speak to this additional
17 brief this morning. I would like to enter the
18 supplementary brief into the record as Exhibit 227 and
19 the addendum as Exhibit 228.

20
21 ---EXHIBIT NO. 227: Supplementary brief of the
22 Canadian Underwriters' Association.

23 ---EXHIBIT NO. 228: Addendum to the supplementary
24 brief of the Canadian Underwriters' Association.

25
26 SUBMISSION OF

27 THE CANADIAN UNDERWRITERS' ASSOCIATION

28
29 APPEARANCES: Mr. A. Leslie Ham, Q.C.

30



F9 1 THE CHAIRMAN: Good morning. Thank you,
2 Mr. Ham, for coming back to see us again. We have
3 been over your supplementary brief ourselves. Before
4 getting into that I would be very grateful if, for
5 my benefit, if not others, if you would just bring
6 me a little closer to where we were before by a five
7 or ten minute refresher course. I realize your sub-
8 mission is directed to us in the interests of those
9 companies which are not mutuals, in the desire to
10 achieve what you consider an equality of taxation as
11 between people in the same business. I am not very
12 clear in my mind as to where the difference in taxation
13 between your people and the mutuals exist. Would you
14 explain that to us?

15 MR. HAM: Well, Mr. Chairman, may I first
16 say I am very happy to be back again and I trust my
17 researches in the interim may have helped you in your
18 deliberations. The original base of insurance was,
19 in fact, mutual. It was a matter of sharing one's
20 burdens, but true mutuality seems to restrict such
21 corporations' operations to a class of people or a
22 locality and consequently joint stock insurance came
23 into business and operated over many classes and over
24 -- well, world-wide, if you wish. True mutuality of
25 sharing each other's burdens tended to keep them
26 small. Some got ambitious, they got some corporate
27 form and proceeded to write non-accessible policies
28 which, I suggest, is one of the tests of a mutual, and
29 came into competition with joint stock insurance in
30 very many field with the result, I suggest, sir, that



F101 what you have is sort of -- you have corporate bodies,
2 the ownership of which is quite questionable.

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1 In theory it is the policy-holders who are
2 the owners of it and management, in theory is elected
3 to run it. The fact is that just as few shareholders
4 turn up at shareholders meetings, few policy-holders
5 turn up at mutual meetings and so you have all types
6 of perpetuating management, self-perpetuating management
7 running the organization.

8 I suggest that when you get beyond the premium
9 notes, assessment mutuals the original theory does not
10 stand any longer and I suggest that the action of the
11 Quebec Legislature some 15 years ago with respect to
12 the five specifically called joint stock mutuals and
13 the recent action of the Parliament of Canada with
14 respect to the cooperative fire and casualty company
15 indicates, the Quebec Legislature and the Parliament
16 of Canada do not put much strength in the argument
17 that the policyholders own the company because they
18 simply legislated their property right out of
19 existence, and handed it to another group who might or
20 might not be, in the case of cooperative fire, policy-
21 holders at all but simply because they put up money
22 for the funds with which to operate the company so my
23 suggestion is as the law stands you are able to take
24 what a corporation earns and depending upon how you
25 distribute it, the profit of the corporation, depends
26 whether you pay any taxes or not.

27 When I was before you before, I think it was
28 Mrs. Milne asked if it couldn't be considered as a price
29 rebate. I sort of grasped the thought at the moment
30 but it wasn't until after I got out that I really



1 sensed the problem. This price rebate in essence is
2 simply an adjustment as to next year's premium and in
3 my supplementary brief I do draw attention to the fact
4 that the whole industry could put through rate
5 reductions, and they are going up and down all the time,
6 could put them through because Section 74 permits joint
7 stock companies to pay policy dividends and we simply,
8 instead of doing the straight forward -- not straight
9 forward in that sense, but doing the easiest thing and
10 saying well next year's rates are down 10 per cent,
11 we simply declare a policy dividend and let the
12 government pay.

13 THE CHAIRMAN: "And let the government pay"?
14 Let's see if I understand what that means.

15 MR. HAM: Because we declare it as a dividend
16 and pay them and we would be able to deduct it as
17 an expense. That is all that happens. If there is a
18 profit in it because of competition, the mutual declares
19 it as a policy dividend and is used to reduce next
20 year's premium because his practice in the rest of
21 the industry is to simply reduce next year's premium
22 5 per cent or 10 per cent, something of that kind
23 and claim 10 per cent less next year.

24 We could -- I am not suggesting it makes
25 quite a difference on the taxable income in profitable years;
26 haven't had too many of them, on the profitable
27 years if the industry as a whole simply said a dwelling
28 in the Province of Quebec or Ontario or Nova Scotia
29 we are going to have a 10 per cent reduction now, instead
30 of just saying on renewal business the rate, instead of



1 being \$1.00, will be 90 cents, we are going to simply
2 declare a policy dividend of 10 cents per policy on
3 next year's premium by way of dividend if you renew
4 it with us.

5 THE CHAIRMAN: I don't see the purpose because
6 the taxable income would be the same in both
7 circumstances: in one case reduce your revenue and
8 in the other case increase your expenses.

9 MR. HAM: But I have already paid the joint
10 stock companies, already paid it in 1963 because he paid
11 taxes on that but we are being entitled to deduct
12 from our 1963 calculations the dividend declared in
13 1963 to be used against 1964 premiums.

14 THE CHAIRMAN: I am sorry, putting the two
15 years together?

16 MR. HAM: Yes.

17 THE CHAIRMAN: In both cases though the total
18 taxable income would be the same?

19 MR. HAM: Yes, as long as I am entitled to
20 declare my dividend and it is collectible by the
21 insured, I am entitled to deduct it as an expense.

22 THE CHAIRMAN: Save only for the difference
23 between the two years. Over the lifetime of the
24 company the same thing results, save only for taking
25 it out one year and putting it in next year there is
26 no difference in the taxable income because in one
27 case a reduction of revenue and in the other case
28 increased expenses?

29 MR. HAM: Because in 1963 I took as an expense
30 10 cents on the dollar for a class of business in an



1 area and so I pay no income tax on it. As we do it now,
2 we pay our income tax on that profit and reduce our
3 rates as well so I am suggesting that the industry
4 could simply declare a dividend instead of a reduction.

5 COMMISSIONER GRANT: At the same time you
6 have quite a variation in your accounting practice as
7 between the joint stock company and the mutual in
8 arriving at this amount which was surplus and which
9 would be available as a reduction. Now in each case,
10 let us follow the account and I do not profess to be
11 an accountant, but let's see if I can develop my
12 thought. At the end of the year in the mutual and
13 in the joint stock companies you have a certain
14 balance of revenue over expenses which we will call a
15 surplus?

16 MR. HAM: Yes.

17 COMMISSIONER GRANT: Now in the mutual you
18 are probably allowed to set aside certain reserves?

19 MR. HAM: Yes.

20 COMMISSIONER GRANT: And you take that, first
21 of all, out of your mutual and in the joint stock
22 companies you are going to also set aside certain
23 reserves?

24 MR. HAM: Yes.

25 COMMISSIONER GRANT: Where you come, I say,
26 to the parting of the ways, if I understand the mutual
27 concept and that is with the mutual what is left
28 after setting aside your reserve, then has to go
29 to the policy-holder---

30 MR. HAM: Not has to I suggest Mr. Grant.



1 COMMISSIONER GRANT: Maybe not, I grant you,
2 but what is retained is going to be taxable?

3 MR. HAM: What is retained is going to be
4 taxable.

5 COMMISSIONER GRANT: With respect to the joint
6 stock company, he has first of all before passing
7 anything back to his policy-holders, he is going to
8 say what are the shareholders entitled to as a result
9 of the money that they put up to earn this surplus?

10 MR. HAM: But he doesn't have to say it. In
11 recent years the shareholders haven't got very much
12 anyway out of the business.

13 COMMISSIONER GRANT: I am not saying he has
14 to say it. In theory it is there. It is up to him
15 to make the decision.

16 MR. HAM: The only difference would be --
17 I am talking about a surplus that would justify a
18 rate reduction -- he takes out the shareholders' shares,
19 and he still has got enough to warrant a 10 per cent
20 reduction but the way we run it, we pay on that amount
21 of money and we declare a reduction in rate for the
22 ensuing year. But instead of doing that, we take that
23 surplus over the amount that goes into reserve and
24 over the amount that goes into the shareholders money
25 and say now with this balance we now declare 10 cents
26 on the dollar reduction for this class of business and
27 that is deductible as an expense. We would be paying
28 income tax on what goes into the reserve as the mutual
29 and we will be paying the tax on what goes to the
30 shareholders' accounts which the mutual does not have to.



1 I am talking about the surplus which we are going to
2 return to the public by way of a rate reduction in
3 which competitively could be made as a matter of course
4 but instead of just simply reducing our rates for 1964,
5 we now say well we will declare a 10 per cent policy
6 dividend to be applied to next year's premium, and
7 that is free of income tax because Section 74 permits it and
8 the MacDougall Commission was quite clear, they
9 should be on the same basis. We are free to do it by
10 long custom, but we have never got around to it. I
11 am suggesting if there is not an amelioration, it is
12 quite possible consideration might be given to meet
13 the situation by making rate reductions and I think I
14 point out in my brief since 1905 fire rates, for example
15 have dropped from \$1.60 per hundred to .63 cents.
16 You are in a falling -- at the moment you are in a
17 rising market but over decades the fire rates have
18 come down due to improved building construction, fire
19 fighting facilities, and so on.

20 COMMISSIONER GRANT: You are certainly free
21 to make distribution by way of rate reduction in the
22 joint stock company, just the same as the mutual. You
23 are free to do it. The fact is if you made that rate
24 reduction without reference to the dividend which
25 you would consider should be paid to the shareholder,
26 then you would not be very popular with the shareholders.

27 MR. HAM: Well most general managers have
28 not been very popular for the last five years; haven't
29 had it to argue about. I am even suggesting we
30 look after shareholders accounts but we are still in



1 sufficient funds and the condition of the market is
2 such that there is a 10 per cent reduction available
3 to the public and competition will force us to put it
4 in. We will put it in and it will cost us taxes on
5 it but the way the mutual puts it in, he doesn't have
6 to. I am suggesting that consideration be given
7 -- likely the competitive situation gets worse, but
8 it has changed our system; as far as computers are
9 concerned that would be a technical problem to work
10 that out.

11 COMMISSIONER WALLS: A further clarification,
12 before we go on to the brief proper, and that would
13 help me quite a bit, and that is the variance between
14 the different types of mutuals. Correct me if I am
15 wrong, but it would appear that the premium note
16 mutuals, the factory mutuals, reciprocals, in one way
17 or another charge a premium sufficient to cover all
18 contingencies and then either return the unused
19 premium at the end of each year or, in the case of the
20 premium note mutual, cancel the unused portion of the
21 note. Am I right that your main objection is the
22 cash mutual who withholds payment of cash dividends
23 and who are able to build up reserves quite readily?

24 MR. HAM: Not quite Mr. Walls. I think
25 there may be something said for the factory mutuals,
26 total amount today is three or four times, or five
27 times what the normal premium would be. It is a loan.
28 The premium notes simply lends his credit by way of
29 a note, subject to assessment. The other fellows put
30 up cash and they pick their entries, run an account



1 in which he is allowed the expenses out of it and
2 there is a balance. No profit.

3 I am quite prepared to admit that . . .
4 I accept the premium note mutual and those that are
5 restricting their business, those that are in
6 competition, taking any kind of risk, that is under-
7 writing risk in competition, and then have this
8 freedom -- well I have the same freedom. I do not use
9 that practice. I think it is to the detriment of the
10 national revenue of Canada that we should be able to
11 get what we take and disburse what is really profit
12 to our customers and that the Minister of National
13 Revenue beg for it. When a corporation has earned
14 a profit, the only person entitled to share in that
15 profit is, of right, the tax collector. The other
16 share is in the hands of the Board of Directors.

17 Section 74 gives the Board of Directors a
18 right to determine that the tax collector does not
19 get anything.

20 COMMISSIONER WALLS: I don't think you quite
21 answered my question. Is it not a fact that the
22 cash mutual is the only one that charges a flat
23 premium?

24 MR. HAM: I am sorry, I did not catch that.
25 The cash mutual is originally a premium note mutual
26 that has grown beyond its size and has gone into
27 competitive business, charged a premium on a non-
28 assessable policy and does not pay any dividends at
29 all. He operates the same as we do, as far as he
30 is concerned. I am not too concerned about that, if



1 he does not pay policy dividends.

2 COMMISSIONER WALLS: Therefore your objection
3 then primarily is against the cash mutual who pay
4 dividends? That is at whom you are primarily aiming
5 your case?

6 MR. HAM: And factory mutual.

7 COMMISSIONER WALLS: Wawanesa Mutual, and
8 mutuals of that calibre?

9 MR. HAM: Yes.

10 COMMISSIONER WALLS: In other words you would
11 have been quite happy if the Wawanesa Mutual had
12 stayed within the Wawanesa locality and had not spread
13 across Canada?

14 MR. HAM: Been very happy because Wawanesa,
15 I do not think, had very many premium dividend paying
16 policies, if any. They are in business the same as
17 we are and can do more or less on the same basis --
18 the practice of paying policy dividends that I am
19 at. Section 76 -- Section 74 that I am at.

20 THE CHAIRMAN: What would you like us to
21 recommend? I am not clear about that.

22 MR. HAM: Well, Mr. Chairman, subject to
23 one reservation with respect to the factory mutuals
24 and reciprocals and their large premium deposits,
25 which I am quite frank to admit is not a premium
26 in the sense that I use premiums this morning,
27 policy dividend should not be deductible as an
28 expense first. That is my first suggestion. If
29 the position is impossible in theory or in practice
30 then at least a dividend should not be deductible on



1 some such basis and I do not think the percentages
2 are right as under Section 75 or cannot be more than
3 a certain percentage of the capital and reserves,
4 or something of that kind.

5 THE CHAIRMAN: Should not be deductible so
6 as to reduce profits below a certain return?

7 MR. HAM: Below a certain reasonable
8 percentage in the light of all the facts.

9 THE CHAIRMAN: You would recommend the
10 repeal of Section 74, in fact?

11 MR. HAM: I would, yes. That is my
12 recommendation, sir.

13 COMMISSIONER WALLS: In so far as mutual
14 insurance is concerned.

15 THE CHAIRMAN: I think the section relates
16 to all insurance.

17 MR. HAM: That is right.

18 THE CHAIRMAN: If it were repealed, it would
19 achieve what you are seeking?

20 MR. HAM: That is correct, sir. I think,
21 Mr. Chairman, I tried to develop the idea because the
22 exception was raised I think by Mr. Perry before
23 about the patronage dividends being excepted.

24 I think I can argue a distinction in
25 handling of commodities and the question of service
26 business, such as insurance, that there is a
27 distinction, plus the cooperative handling commodities
28 and embarking on a practice of charging too much.
29 They want to pay dividends back. In the insurance
30 business nobody knows what the result of the year's



1 operation is going to be and if you are lucky you
2 come out with a profit. If you get a hurricane you
3 may not come out with a profit for a couple of
4 years.

5 THE CHAIRMAN: The reason for your
6 recommendation, of course, is that you believe these
7 people do not pay a fair share of the cost of the
8 nation.

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1 THE CHAIRMAN: I am told that Gore Mutual
2 Company in 1960 paid provincial and federal income
3 tax to the extent of about \$242,000.00 against profit
4 after taxes and \$362,000.00, perhaps not quite as
5 much as a joint stock company would have paid, but
6 a pretty fair proportion of the total in tax, and
7 that the Wawanesa paid \$1,315,000.00 in federal and
8 provincial income tax as against, net after tax
9 \$1,309,000.00 which would be roughly the same as
10 the corporation tax applicable to the normal
11 corporation, not far different anyhow.

12 MR. HAM: I suggest the answer to that is
13 that they fall into the class of a mutual -- a
14 mutual that is not on a mutual basis and doesn't pay
15 dividends, is not paying policy dividends.

16 THE CHAIRMAN: Isn't paying policy dividends?

17 MR. HAM: Gore may have qualifying shares
18 out to give them some position, but they are in a
19 competitive market like we are, and they don't use
20 policy dividends any more than we do.

21 THE CHAIRMAN: Why don't they if it would
22 reduce the tax bill?

23 MR. HAM: Because they don't want assessable
24 policies and they are quite prepared -- I am not
25 fighting their battle, it is the same thing as the joint
26 stock battle because we are operating on exactly the
27 same basis.

28 THE CHAIRMAN: Do they have shareholders?

29 MR. HAM: No, they don't have shareholders.
30 It is just as operating management starting out with



H2 1 a premium assessment company, got big ideas and they
2 expanded.

3 THE CHAIRMAN: Policyholders get profits
4 to which I refer?

5 MR. HAM: I suggest, sir, that is an
6 illusion. He gets it on paper. He gets it but the
7 underwriter -- if I held a Gore policy or a Wawanesa
8 policy and in the underwriter's judgment he didn't
9 want me as a risk he could dispose my property rights
10 in the accumulated reserves by simply cancelling my
11 policy. The Quebec legislation and the Parliament
12 of Canada felt just as cavalierly about property
13 rights of policyholders in the Co-operative Fire and
14 Casualty, Stanstead & Sherbrooke and Misiquoiu and
15 Rouville. In one day, it could be argued, having
16 policies in one of these companies I was part owner
17 of the Quebec companies that were in existence with
18 one hundred years of accumulated reserves and assets
19 from the company, and with a swish of the pen, the
20 signing by the Lieutenant-Governor I have been dis-
21 possessed of what in theory I was supposed to own just
22 as the policyholders of the Co-operative Fire &
23 Casualty, just this summer were disposed of the prop-
24 erty rights, in theory, they were supposed to have in the
25 accumulated assets and reserves of the Co-operative Fire.
26 It doesn't mean anything. If the underwriter cancels
27 a policy you are dispossessed of the the ownership
28 rights.

29 COMMISSIONER GRANT: Is a company like
30 Wawanesa under any regulation as to the premium they



H3 1 will charge?

2 MR. HAM: Yes, they issue a manual the
3 same as we do.

4 COMMISSIONER GRANT: Do they make their
5 own regulations? Do they decide what their premium,
6 annual premium is going to be?

7 MR. HAM: They are what we call independent
8 independents. They go their own way. They are
9 really two Associations, mine and Independent Fire
10 Insurance Conference, Automobile Insurance Conference,
11 who make it for their members and we make it for ours,
12 but the Wawanesa and a number of companies, Insurance
13 Company of North America make their own.

14 COMMISSIONER GRANT: Some companies that
15 are in business, their premiums are determined by a
16 board of which they are members?

17 MR. HAM: Oh, yes.

18 COMMISSIONER GRANT: Would that be the case
19 in your company?

20 MR. HAM: Canadian Underwriters and
21 Independent Fire Insurance and Independent Automobile
22 Insurance Conference purport to make their own, but
23 I suggest they make it on the same experience we
24 do, because by Provincial legislation all underwriters,
25 and I am speaking of automobiles now, they have to
26 supply their statistics and their purchases on schedules
27 to the Government, and everybody works from that.

28 COMMISSIONER GRANT: Any company that is not
29 a member of the Canadian Underwriters' Association would
30 have to right to determine their own rates?



H4 1 MR. HAM: I should correct that just a little
2 bit. What we quote are minimum rates. They are free
3 to go above. You get a peculiarly hazardous
4 thing. We work on averages and an underwriter may say
5 from their experience of their location or something
6 we know the Underwriters are wrong and they might
7 surcharge it. We quote minimum rates to our members
8 and Independent Fire quote them for their members,
9 and then there is a large body that make up their
10 own rates. Perhaps it is just taking ours and deduct-
11 ing five per cent off, I don't know, but they make
12 their own rates.

13 COMMISSIONER WALLS: In other words joint
14 stock companies are both board companies and non-board
15 companies?

16 MR. HAM: There are mutual companies in the
17 Independent Fire Insurance Conference and in the
18 Independent Automobile Conference. It is very mixed
19 up. It is hard to follow, perhaps.

20 COMMISSIONER GRANT: There are tariff companies
21 and non-tariff companies?

22 MR. HAM: That is right.

23 COMMISSIONER GRANT: Tariff companies are the
24 companies that adhere to the rates set by the Board
25 of Insurance Underwriters for the respective provinces.

26 MR. HAM: That is right.

27 COMMISSIONER GRANT: The non-tariff companies
28 are those that can set their own rates without refer-
29 ence to the Board of Insurance Underwriters?

30 MR. HAM: These terms are getting a little



H5 1 confusing. Strictly speaking a tariff company is a
2 member of the Canadian Underwriters' Association, but
3 besides that you have these independent, two
4 independent conferences, one fire and one automobile,
5 but in a sense they are tariff companies, but they
6 are only referred to in that because they are free to
7 set their rates, and then you have a group of mutuals,
8 stock companies, reciprocals and what-nots that are
9 surservient to nobody. They make their own, purely
10 competitive, risk to risk. If they want a risk, say
11 from a factory mutual they come and make their own
12 inspection and due to a sharp pencil or a dull pencil,
13 depending on what they think the risk rates, and in
14 the course of a year, and I checked for a number of
15 years, we steal 20 or 30 from the factory mutuals and
16 they will steal 20 or 30 from us. That goes on all
17 the time.

18 COMMISSIONER WALLS: You stated you didn't
19 have too great an objection to the factory mutual, but
20 in your previous brief you concentrated quite a bit
21 on the pool insurance company. Is the pool insurance
22 not factory, actually?

23 MR. HAM: I beg your pardon?

24 COMMISSIONER WALLS: Is the pool insurance
25 not factory?

26 MR. HAM: No, pool insurance is a branch
27 member of my association, as a matter of fact. It
28 belongs to the Canadian Underwriters Association in
29 Manitoba, Saskatchewan, and Alberta. I am talking
30 against a branch member in my association. It illustrates



H61 the point of where Section 74 takes you. I would like
2 to correct something. I didn't say I didn't object
3 to factory mutuals. I think that there should be some
4 limitation of their right of having dividends free
5 of tax. I don't see it should go to the whole 100
6 per cent of their deficit premium because part of that
7 is just put there as security. It isn't true premium.
8 The whole of it isn't true premium in the sense of
9 guaranteeing a risk. The pool insurance company is
10 a joint stock company.

11 COMMISSIONER WALLS: Yes, I know that.

12 MR. HAM: And is a member of my Association,
13 and I am here talking against them, against the practice
14 as illustrated by them. If I was a member of the
15 pool insurance and I could see a way to beat the
16 Insurance Act I would feel I was a very dull citizen
17 if I didn't take advantage of it. It is the practice
18 I am against, not the pool.

19 COMMISSIONER PERRY: Apart from the tax
20 position are there any other advantages in the rebate of prem-
21 ium technique? Is it a thing which appeals to insurance
22 as against the stock company method of reducing rates?

23 MR. HAM: I think the thing arises purely
H24 out of history. The mutuals started in with premium
25 notes and assessment basis, and then they wanted some
26 cash so they started taking a cash deficit and if it
27 was too much they paid it back. The joint stock
28 company started in, they were like adventurers in trade,
29 if they made a profit they kept it and if they made
30 a loss they absorbed it. They felt there was a mutuality



H71 in their interests. If we are looking in the light
2 of reasons and that sort of thing, I think it is
3 purely historical.

4 COMMISSIONER PERRY: We had the co-operatives
5 conceded that there is some sales advantage to them in
6 paying patronage dividends, that it is a device which
7 was useful to them. You wouldn't hold the same applies
8 here?

9 MR. HAM: I don't think the average buyer
10 of insurance is too influenced by the promise of
11 dividends. I mean, they cannot come out and promise.
12 The insurance administration wouldn't let them guarantee
13 dividends. I don't think competitively that is too
14 much of a factor. It is really from a tax angle I
15 am concerned that they have an advantage, a large
16 advantage, which we could take, but it seems to be a
17 very cumbersome method of putting through rates reductions
18 by way of policy dividends instead of simply saying
19 next year we are going to charge 10 per cent less.

20 COMMISSIONER WALLS: Would you care to enlarge
21 on the advantage of co-operative insurance
22 companies converting to joint stock companies similar
23 to B111 S-26?

24 MR. HAM: The main advantage is to the
25 people who Parliament declares now own the company.
26 They fell heir to the accumulated surpluses that hundreds
27 of policyholders have contributed by over-payment,
28 whereas, yesterday in theory they owned part of the
29 company and today a bunch of other people own it, and
30 there was nothing in the material before the parliament



H81 that indicated that the people, the big bulk of them --
2 there may have seen some that didn't have policies
3 in the co-operatives, but they had put up some of the
4 guarantee fund. They became owners of the thing not
5 on the basis of their patronage in the Co-operative
6 Fire, but on the basis of what they contributed to the
7 guarantee fund.

8 COMMISSIONER WALLS: Weren't they to a great
9 extent the same people, the present shareholders?

10 MR. HAM: No, they were out selling. In
11 Mr. Grant's territory the Co-operative Fire did very
12 extensive business with Tom, Dick and Harry. They
13 weren't just insuring people who contributed. They
14 were in the competitive market.

15 COMMISSIONER WALLS: Wasn't that done through
16 Maritime Co-operative Services, perhaps, and also
17 through other maritime co-operative groups who are
18 now shareholders?

19 MR. HAM: Yes, but they sold -- they might
20 have sold a policy to Mr. Grant down in the Maritimes
21 and there is nothing, so far as I could see -- all
22 these people listed in the schedule may have been
23 policyholders, but I would suggest it a most unusual
24 factor if they had a patronage in relationship to the
25 contributions to the guarantee fund. They now own
26 assets of the corporation based on the guarantee
27 fund, not how much they patronized.

28 COMMISSIONER WALLS: You have no way of know-
29 ing that. It seems to me all these various co-operatives
30 who now make up this joint stock company, that there is



H91 quite a variation in their shares and I just wondered
2 if that had been done on the basis of their membership
3 in the previous co-operative?

4 MR. HAM: I would be very surprised, Mr.
5 Walls, if this is the case. If the Dominion Superintend-
6 ent of Insurance said to them -- I think he said in
7 his remarks that they couldn't start business until
8 they had a fund of \$200,000, and they simply went out
9 and got collections from various co-operatives, what
10 they were prepared to pay into it, and they got far
11 more than the required \$200,000 and they started
12 business, started competing with other insurances in
13 Canada for Tom, Dick and Harry's business and after,
14 I don't know how many years, but not very long, but
15 they had built up a substantial volume and some
16 reserves. I think the surplus is \$169,000 which Tom,
17 Dick and Harry in the Maritimes were entitled to say,
18 at one time, I own part of that because I am a policy-
19 holder.

20 COMMISSIONER GRANT: Mr. Ham, one principal
21 reason that they acquired the Federal Charter was that
22 it improved the limit of their corporate financial
23 structure and put them in a better competitive position
24 to write business across the country?

25 MR. HAM: Well, when they were a co-operative
26 they had a Federal Charter at that time. All they did
27 was change the corporate structure from a co-operative
28 basis to a joint stock basis and then the people who
29 contributed funds just fell heir to whatever
30 accumulated surpluses there were with no relationship



H10 to their patronage in this company as policyholders.

2 COMMISSIONER GRANT: Where I am lacking in
3 my information is what benefit they derived by becoming
4 a federal company?

5 MR. HAM: It has always been a federal
6 company.

7 COMMISSIONER GRANT: Joint stock federal
8 company.

9 MR. HAM: Making the switch -- I couldn't
10 suggest why they did it. Certainly while Section 74
11 is there they weren't ~~worsening~~ their position because
12 they could pay patronage dividends as a joint stock
13 company or as a mutual. They weren't ~~worsening~~ their
14 position. I think it might have something to do with
15 the kind of deals they could make in the re-insurance
16 market, for their re-insurance. That is just a
17 suggestion. I have no idea if that had any bearing
18 on it. I can see the London market saying, well, I
19 would much prefer to deal with a joint stock setup
20 than I would with this nebulous thing with a guarantee
21 fund in there, and they might get a better deal on
22 re-insurance because there is as much business done
23 in re-insurance as in direct insurance. Your deals
24 on re-insurance may make a difference between profit
25 and loss in a year's operation.

26 THE CHAIRMAN: Mr. Ham, many thanks for
27 this supplementary brief in which you replied to some
28 questions raised by us. I am not sure whether this
29 takes care of the questions. I shall inquire.

30 I think you much have done very well indeed.



H11 This Commission is not loathe to ask questions. If
2 you stop them it only means you have covered the
3 subject very well.

4 MR. HAM: May I say it has been my pleasure,
5 sir, along with the chance of appearing before you
6 again. It has been very happy.

7 THE CHAIRMAN: Thank you very much. It
8 is very good of you. We will stand over to 9:30 tomorrow
9 morning.

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11 ---WHEREUPON THE HEARING ADJOURNED AT 1:00 P.M. UNTIL
12 9:30 A.M., FRIDAY, THE 18th DAY OF OCTOBER, 1963.

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